THE CHURCHILL CORPORATION

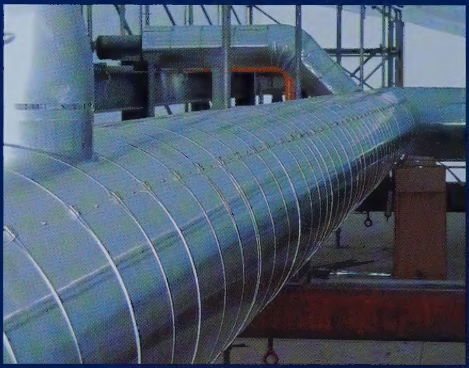
ANNUAL REPORT 2004

Churchill's mission is to maximize client value in the construction, maintenance and industrial service businesses by building relationships with our clients to profitably deliver services that exceed their expectations. Churchill's strategic vision is to build a highly profitable, diversified and sustainable construction and industrial services business.

The Churchill Corporation provides services to the industrial construction, industrial maintenance and building construction markets through operating subsidiaries:

- Laird Electric - industrial electrical, instrumentation and power-line construction and maintenance services
- Fuller Austin Insulation and Northern Industrial Insulation - industrial insulation, maintenance and related services
- Triton Projects - heavy-industrial general contracting, fabrication and maintenance services
- Stuart Olson Construction - building construction services

Churchill is based in Edmonton, Alberta and active throughout western Canada, northwestern Ontario and the Northwest Territories.



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EXCHANGE LISTING
The Toronto Stock Exchange
Trading Symbol: CUQ
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Sedar Profile No: 00003704

CHURCHILL AT A GLANCE

INDUSTRIAL CONSTRUCTION AND MAINTENANCE

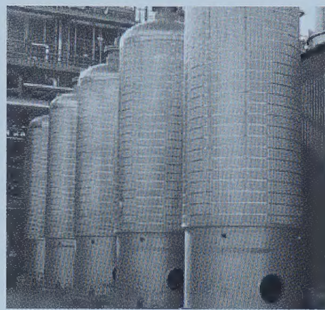
LAIRD ELECTRIC

BUSINESS
- Industrial and commercial electrical, instrumentation and power-line construction and maintenance
- 2004 revenue of $20 million (6% of Churchill's operating revenue)

MARKET FOCUS
- Resource and industrial sectors: oil sands, other oil and gas, petrochemical and power generation

COMPETITIVE POSITION
- One of the largest electrical contractors in the active Fort McMurray oil sands sector; successfully expanded operations into the Edmonton area
- Provides a wider range of complementary services than competitors
- Generates a significant portion of revenue from maintenance services
- Established in 1962

FULLER AUSTIN AND NORTHERN INDUSTRIAL

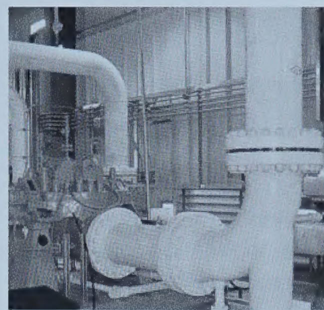


BUSINESS
- Thermal insulation, fireproofing, fire stopping, siding, asbestos abatement and plant maintenance
- 2004 revenue of $41 million (12% of Churchill's operating revenue)

MARKET FOCUS
- Resource and industrial sectors: oil and gas, petrochemical, forest products, pipelines, utilities and mining

COMPETITIVE POSITION
- One of the largest industrial insulation contractors in Canada
- Offices in Edmonton, Calgary, Bonnyville and Fort McMurray, Alberta, Regina, Saskatchewan and Thunder Bay and Ancaster, Ontario
- Provides a wider range of complementary services than competitors
- Established in 1961

TRITON PROJECTS



BUSINESS
- Heavy-industrial general contracting, fabrication and maintenance
- 2004 revenue of $40 million (12% of Churchill's operating revenue)

MARKET FOCUS
- Resource and industrial sectors: oil and gas, petrochemical, power, mining and forest products

COMPETITIVE POSITION
- One of the largest open-shop heavy-industrial general contractors in western Canada
- Offices in Edmonton, Calgary, Bonnyville and Fort McMurray, Alberta
- Strong position in natural gas and heavy oil sectors – a major growth market over the next five years
- Modular fabrication capability and capacity
- Established in 1953

BUILDING CONSTRUCTION

STUART OLSON

BUSINESS
- Building construction: construction management, design-build and general contracting
- 2004 revenue of $239 million (70% of Churchill's operating revenue)

MARKET FOCUS
- Private and public sectors
- Institutional, commercial and light-industrial building markets
- Particular expertise in healthcare, high technology, hotels, retail, food processing and distribution, recreational and educational facilities

COMPETITIVE POSITION
- One of the three largest building contractors in western Canada
- Major offices in Calgary and Edmonton, Alberta, and Vancouver, British Columbia; active throughout western Canada and the Northwest Territories
- An industry leader in construction management and design-build
- Established in 1939

Report to Shareholders

Although 2004 was a difficult year for Churchill from a financial perspective, we were able to achieve progress on a number of fronts.

2004 was expected to be a turnaround year after our poor 2003 and indeed that was the case for several of our operating companies. However, the results from two of our companies negatively affected the Corporation's overall financial results.

Our revenue was $334.6 million, up 4.8% over 2003, as many of the client delayed projects from prior years moved into the construction phase. Our building construction division, Stuart Olson, had a good year on increased revenue and much improved operating income. The industrial market continued to be slow early in the year but picked up in the latter half resulting in an overall increase in revenue from the prior year. Our insulation businesses, particularly Fuller Austin, had a good year financially. Laird Electric, however, struggled with lower revenue and tighter contract margins and Triton failed to execute profitably on its fabrication contracts.

It was a year in which the markets of our various businesses fluctuated but all finished the year in an improved environment. After a slow early start, Stuart Olson's market picked up dramatically, resulting in a turnaround year. Our insulation companies had a strong beginning, slowed up in mid-year and then finished strongly. Laird Electric had a good beginning and then struggled through the balance of the year with delays in project starts and deferred maintenance work. Triton started the year with a very low carryover of work from 2003 but was able to acquire significant new work by mid-year, only to be hampered with start-up issues on contracts at Churchill's new modular fabrication plant. By year-end we faced a much different situation wherein all activity had rebounded. We now look forward to 2005 for a major upswing in all of our markets.

ISSUES IN 2004:

As expected, the first half of the year was a challenge. This was primarily as a result of client initiated delays in project starts that resulted in low revenue relative to the Corporation's capacity. By mid-year the level of activity increased substantially. This improvement was too late to offset the early losses, although it did provide excellent opportunities from that juncture onward.

The dominating issue causing our poor financial results was the additional start-up cost associated with Churchill's new modular fabrication facility. Early in the year we commenced construction on a new 45,000 square foot facility on 160 acres northeast of Edmonton, costing approximately $7.4 million. Many of the new oil sands projects are being constructed utilizing off-site fabrication of process modules that are then transported to the jobsite and assembled. As this is a key entry into participation in the massive oil sands construction market, we initiated the project.

It was planned that the completion and commissioning of the facility would be mid-year, and as such Triton secured several new contracts for work to start at that time. Due to weather and permitting issues, construction was completed late, resulting in

a compressed commissioning phase. This caused much higher costs than expected and Triton was not able to bring the production level up to the designed capacity within the planned time frame. Although the quality of the finished product was excellent, the cost overruns were high due to low productivity and ineffective processes. This caused severe erosion of Triton's profitability, particularly in the fourth quarter of the year.

Laird Electric was expected to continue the level of profitability achieved in 2003. However, delays in the start-up of construction on many of the new oil sands projects in northern Alberta caused the company's revenue to be considerably lower than expected. As well, its major client postponed a significant amount of on-going maintenance work into 2005 resulting in lower contract revenue for 2004.

As a result of the financial losses of the last few years, and in particular 2004, Churchill's working capital has been reduced. The Corporation is in the process of arranging for additional financing to replenish the working capital to fund the present work program and to take advantage of additional opportunities in our market.

ACHIEVEMENTS:

Stuart Olson achieved a very positive turnaround in financial results during the year. 2003 had been the first year in a long period in which the company incurred a financial loss. This was primarily due to delays in new project starts. As these projects eventually moved into construction in 2004, the company realized significant growth in revenue and improvement in earnings.

Fuller Austin had a very successful year both in terms of project execution and work procurement. The early part of the year was very strong as the company completed work in a number of Edmonton modular facilities on projects destined for the oil sands plants in northern Alberta. As a result of its performance on these contracts, Fuller Austin was able to secure contracts to perform the on-site work in the Fort McMurray region for one of the major oil sands producers. The scope of this work will result in one of the largest industrial insulation projects ever executed in Canada and it is expected to extend throughout all of 2005 and into 2006.

Although the financial results were well below our expectations for Churchill's new fabrication facility, we did see success in the aspect of work procurement. Prior to completion of the plant in mid-year, Triton secured major fabrication contracts with a number of large national oil and gas companies. This work fully occupied the plant capacity throughout the latter half of the year and is scheduled to extend into 2005. Several of these contracts also include field installation projects which are several times larger than the fabrication scope itself. This is an indication of success in Churchill's strategy of levering the module fabrication activities into opportunities for field installation work.

Both Triton and Fuller Austin secured contracts for larger projects during the year. Large projects have a longer duration, which enhances the predictability and sustainability of revenue and earnings. This is in keeping with Churchill's strategy of increasing the proportion of our business from

this type of work. Stuart Olson continued with its successes in securing larger projects to enhance its backlog and at year-end had several new contracts for large projects nearing the commitment stage with clients.

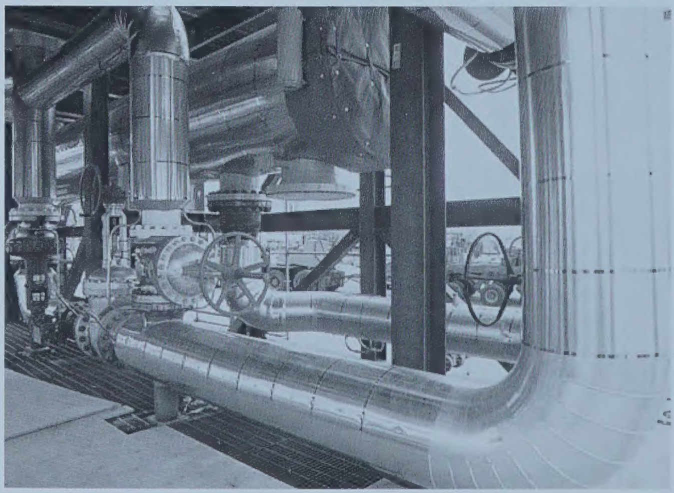
The level of Churchill's maintenance and shutdown/turnaround work increased during the year. It moved up to 35.5% ($36 million) of our industrial revenue from 23.4% ($30 million) during the prior year. This shows progress toward our goal of deriving a greater proportion of our business from recurring revenue.

Geographic expansion was a strategic initiative that also achieved a measure of success. Fuller Austin opened a new office in Ancaster, Ontario during the year. This followed the company's successful entry into that market through the completion of its Nanticoke refinery project for a major national oil company in 2003. It is expected that the southern Ontario market should provide significant opportunities going forward, particularly in the power generation field. Our acquisition of Laird Electric in 2003 provided Churchill with a greatly increased presence in the Fort McMurray region. Triton, Fuller Austin and Northern Industrial Insulation have enlarged their offices and expanded their work activities in this rapidly growing oil sands region.

STRATEGY:
Churchill's goal is to build a highly profitable and sustainable construction, maintenance and industrial services company. Our immediate focus is to return to profitability, followed by sustainable growth in earnings. We did not effectively deliver this strategy in 2004 and are consequently making changes to ensure that these objectives are met in 2005.

Our current focus includes:

- Improving the operational performance of Triton
- Completion of enhanced systems and processes to achieve the planned production efficiencies in the modular fabrication facility
- Arranging for new financing and capital structure in order to replenish the Corporation's working capital
- Increasing the base of recurring revenue through more plant maintenance and annual shutdown work
- Enhancing Churchill's position in the large project markets
- Providing more project opportunities through increased service offerings and bundling of services
- Emphasizing relationship-based methods of project delivery



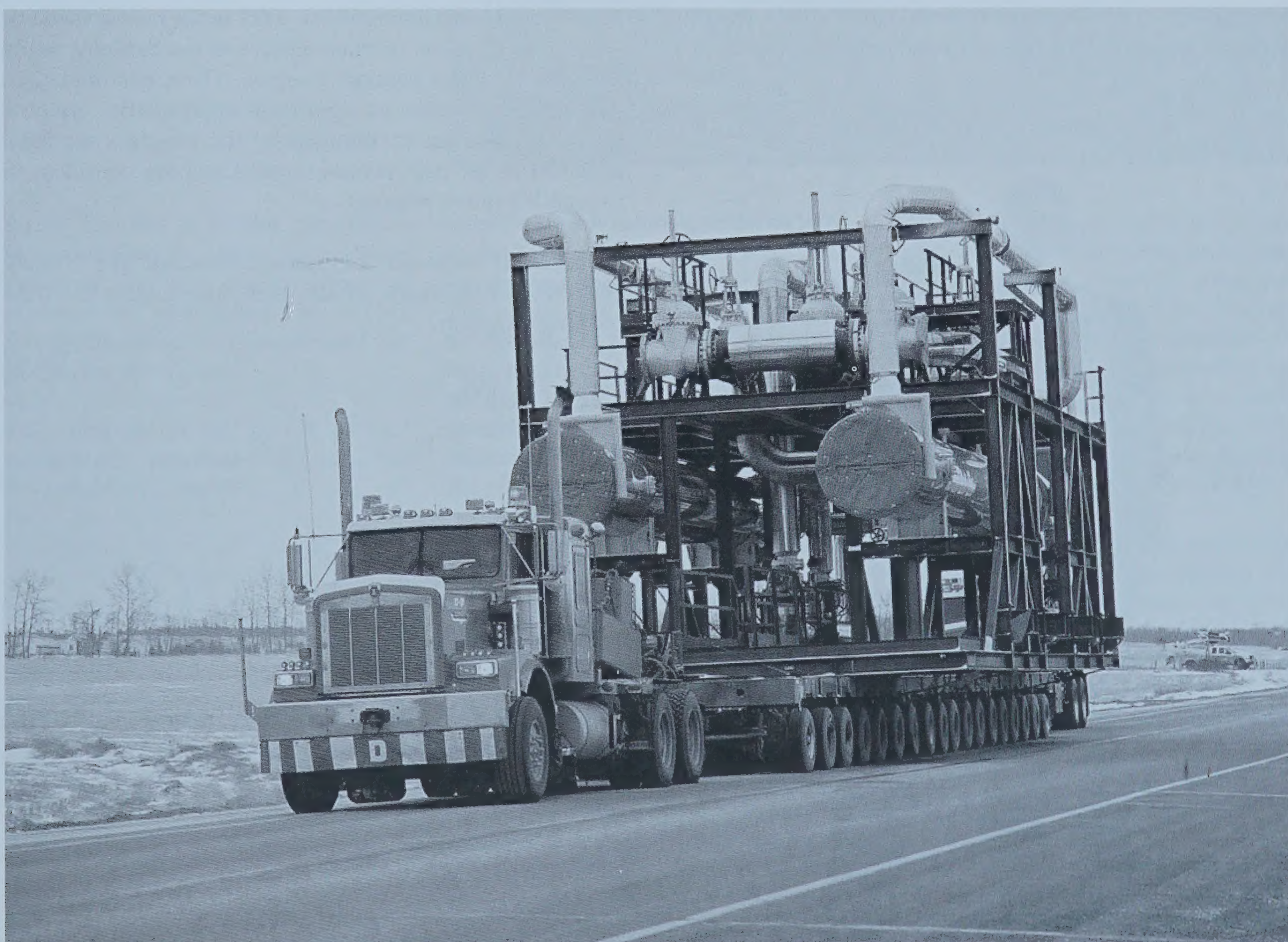
MANAGEMENT SUCCESSION:

During 2004, there were several major changes to Churchill's senior management. Gary Bardell stepped down in November as the President and Chief Executive Officer. Hank Reid, who led the Corporation through a successful twelve year period from 1991 to 2003, returned as Interim President and CEO. At year-end, Ian Morris, Vice President Finance and Chief Financial Officer, left the organization. The functions of the CFO's office are being performed by DeEtte Mack, CA, Corporate Controller, under the general supervision of Director, Harry King, CA, Chairman of the Audit Committee.

OUTLOOK:

Churchill's markets all improved during the latter months of the year and this is expected to carry forward throughout 2005. The majority of Churchill's business is generated in Alberta and British Columbia and these provinces are forecast to lead the country in economic growth in the coming year.

The oil sands and heavy oil mega projects are moving into the construction phase which will result in Alberta being one of the best construction markets in North America over the next decade. Independent forecasts have identified $64 billion



of major projects planned for the next three to five years in the oil sands, oil and gas and power sectors of the industrial market in Alberta. As these plants are completed and move into production they will also generate an increasing amount of maintenance work. In addition to the industrial construction opportunities, there will also be spin-off effects through growth in the general economy that will benefit Stuart Olson's building construction market.

The British Columbia market has improved dramatically from the doldrums of a few years ago and as we move closer to the 2010 Olympics in Vancouver, the construction market should continue to strengthen. The provincial government is also committed to stimulating the resource industry so we expect to see more opportunities in the forest products and oil and gas sectors.

Churchill's Board of Directors and senior management believe that our strategy to increase our opportunities in the oil sands construction market by building a modular fabrication facility is sound. However, our project execution in the start-up was flawed. We are committed to implementing measures to improve our productivity and production and consequently to achieve the designed operating efficiency of the facility. We will limit the plant through-put to allow for completion of these changes and will not gear up to full capacity until consistent profitability has been demonstrated. There is ample work upcoming and we need to be prepared.

H.R. (Hank) Reid   Peter F. Adams

Churchill completed 2004 with a very high level of work-in-hand of $251.5 million. This backlog, combined with the expected new opportunities from improved markets, should result in considerably improved financial results by mid 2005.

As a consequence of the losses of the past few years, our emphasis will be on completing an arrangement for new financing and capital structure in order to take advantage of these opportunities. In addition to the aforementioned fabrication plant start-up issues, many of our financial performance difficulties of the last few years were related to our misjudging the timing of new work in our various markets. This resulted in low revenue relative to our capacity, while also driving down contract margins. These conditions are now greatly lessened as significant opportunities are now before us. We are encouraged by the progress we have achieved in the past several months and are confident in Churchill's future prospects.

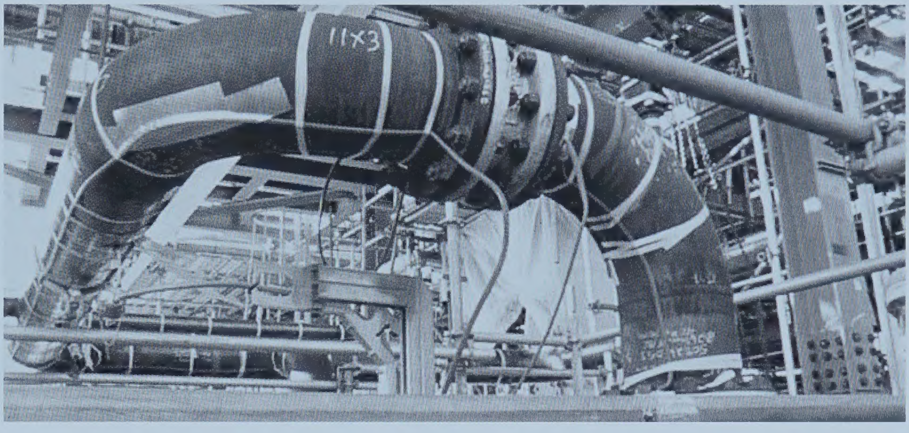
On behalf of the Board of Directors, we would like to thank Churchill's employees, clients and shareholders for their continued support.

March 29, 2005

H.R. (Hank) Reid
Interim President and
Chief Executive Officer

Peter F. Adams
Chairman

LAIRD ELECTRIC



Laird Electric provides electrical, instrumentation and power-line construction and maintenance to commercial and industrial clients throughout western Canada and the Northwest Territories.

The company is one of the largest electrical contractors in the Fort McMurray region.

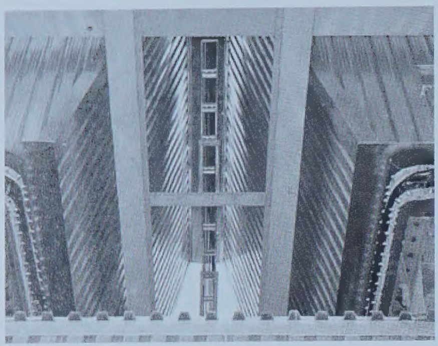
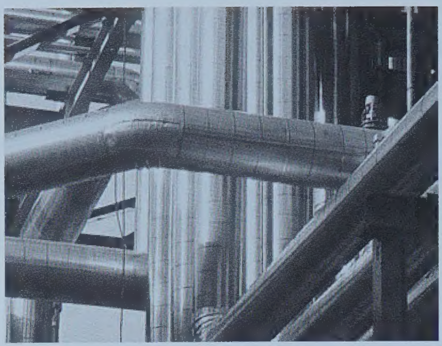
Laird Electric is the most recent addition to the Churchill group of companies, having been acquired in February 2003. The acquisition expanded Churchill's service offerings to clients by providing this most critical component of industrial plant work. It is also complementary to other Churchill industrial businesses and thus improves the opportunity to bundle services.

Laird incurred a slower than expected activity level in 2004. This was primarily as a result of delays in the start-up of construction on the many new oil sands projects in northern Alberta and was further exacerbated by a postponement into 2005 of a large portion of their on-going maintenance work for a major client. Laird's Edmonton office that was opened in 2003 got off to a good start in 2004. It had work on various power generation and oil sands module contracts carried over from the previous year. Upon completion of these projects, the Edmonton market slowed as new projects had not yet reached the construction phase.

Much of Laird's work in 2004 consisted of maintenance work for a number of its long-term clients. The company was also able to secure a new site-wide multi-year maintenance contract for one of the large oil sands projects commencing in the Fort McMurray area. This recurring revenue portion of its business is expected to increase as the various industrial process plants and generating stations undergo expansions and/or age, thus requiring higher maintenance and annual repair work.

Towards the end of 2004, there was marked improvement in available work to bid. This is a good indicator that 2005 will be much improved for the industrial electrical market. Many of the new oil sands plants are expected to move into the construction phase in the coming year. It is also expected that increased power-line work in Alberta and British Columbia will provide growth opportunities.

Laird is somewhat unique as an electrical contractor in that it also provides power-line construction and instrumentation. This allows Laird to gain early access to new projects by providing the initial power service. As well, the company obtains recurring business after project completion through its ongoing instrumentation and control calibration work.


FULLER AUSTIN AND NORTHERN INDUSTRIAL

Fuller Austin and Northern Industrial serve clients primarily in the oil and gas, petrochemical, utilities, forest products, power and mining sectors. Fuller Austin serves the building-trade union market while Northern Industrial serves the open-shop market. These independent operations enable the companies to participate in all sectors.

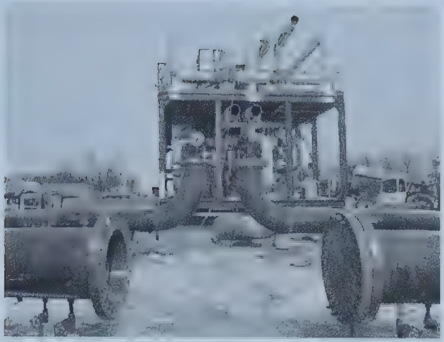
Fuller Austin and Northern Industrial provide an integrated range of complementary services, including insulation, siding, fireproofing, sheet metal, fire stopping, asbestos abatement and plant maintenance.

Fuller Austin is one of the largest industrial insulation and related services contractors in Canada. The company operates primarily in western Canada and Ontario with offices in Edmonton, Calgary, Fort McMurray, Bonnyville, Regina, Thunder Bay and Ancaster. The Ancaster, Ontario office was opened in mid 2004, following up on the successful execution of a refinery project for a major international oil company in Nanticoke, near Hamilton. The company expects to grow this office over the next few years to take advantage of the large southern Ontario market.

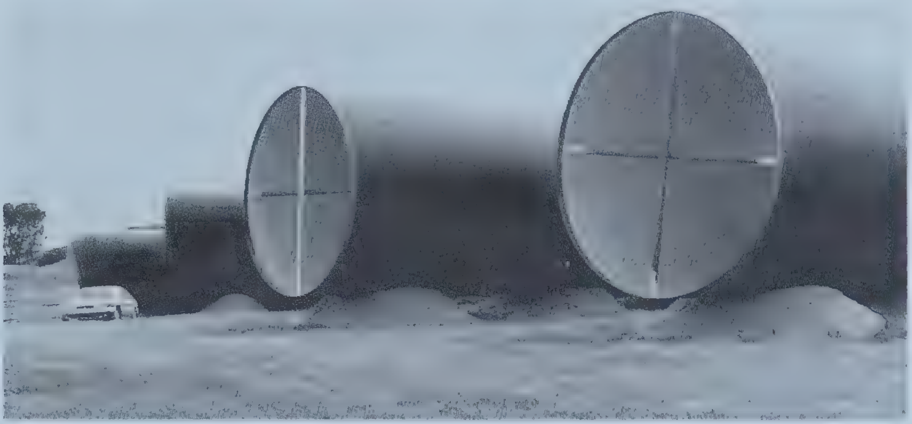
Fuller Austin got off to a very strong start early in 2004, slowed up in mid-year as there was a hiatus prior to new projects commencing, and then finished strongly with a large carryover into 2005. The early work was primarily in the Edmonton area working on modular facilities destined for a major Fort McMurray oil sands project. Later in the year the company secured several large contracts to complete all of the site insulation work for this same project which will continue throughout 2005 and into 2006. Although Fuller Austin's operations in Saskatchewan and Manitoba had lower revenue than expected due to clients' reduction in capital spending, they completed very profitable work on several renovation and maintenance contracts. The Lakehead Insulation division in Thunder Bay had a good year as work picked up in its core forest products market.

Northern Industrial is one of the largest open-shop industrial insulation contractors in western Canada. The bulk of the company's work is in Alberta where it has major offices in Edmonton, Calgary, Fort McMurray and Bonnyville. 2004 was a slow year as many of the new oil and gas projects that generate the majority of Northern's business had not reached the stage requiring insulation work. Its market should improve in 2005 as the projects progress into this stage. Much of its business is maintenance work which provides consistent recurring activity and will increase as the new plants come on stream.

Overall, the insulation businesses had a reduction in revenue from the near record level achieved in 2003. However, their net earnings exceeded the level of the previous year as they experienced excellent profitability on their projects. 2005 should see a higher level of revenue as the companies' carryover of work is large and the outlook for new capital projects is strong, both in their traditional markets and in their new market in southern Ontario.



TRITON PROJECTS



Triton Projects provides heavy-industrial general contracting, fabrication and maintenance services to resource and industrial clients throughout western Canada. The company is one of the largest open-shop mechanical contractors in the region.

Clients are primarily in the oil and gas, petrochemical, power generation, mining and forest products sectors. In addition to new construction and maintenance, Triton has significant experience in the dismantling and relocation of existing facilities, well-site abandonment and restoration.

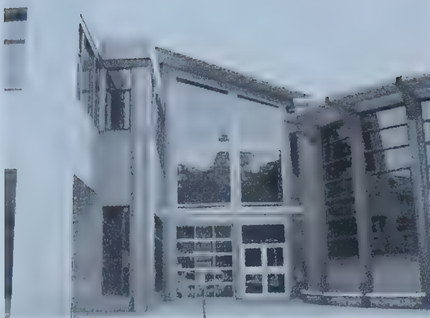
Triton is based in Edmonton, with offices in Fort McMurray, Bonnyville and Calgary, Alberta. The company has been in business for 50 years, during which time it has built a superior reputation for consistently delivering projects on schedule and on budget, while maintaining an enviable safety record. Many of the new oil sands projects are planned for the Fort McMurray and Bonnyville regions, providing Triton with excellent opportunities for the construction of major capital projects.

The acquisition of H&H Oilfield Services in 2000 provided Triton with a base of recurring maintenance revenue to clients in the expanding heavy oil sector in the Bonnyville/Cold Lake region. During recent years the maintenance portion of its business has grown considerably, accounting for 42% of the total revenue in 2004, up from 24% in 2003. In addition to the oil and gas sector, new initiatives have expanded Triton's market into maintenance and shutdown/turnaround work in the forest products sector.

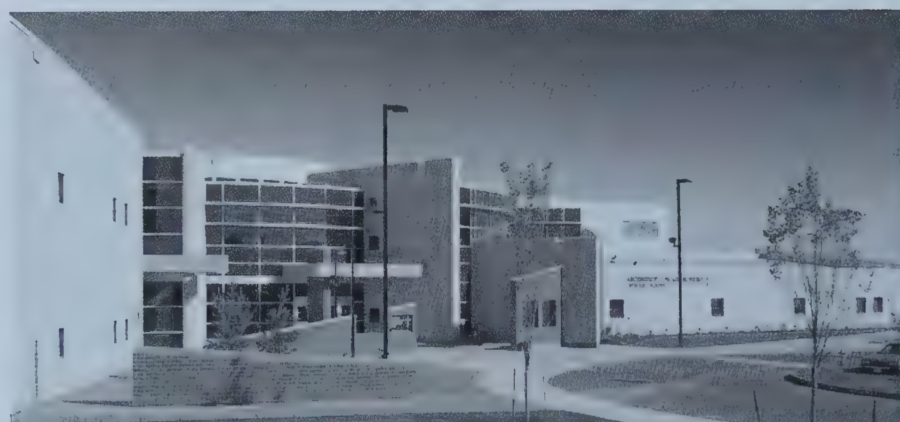
Triton continued to struggle financially in 2004. The company's market was very slow during the first half of the year as new oil sands projects had not yet reached the construction stage. Over the latter half, the activity level picked up considerably as the company commenced construction on contracts for modular work utilizing Churchill's new fabrication plant. Unfortunately, higher than expected start-up costs resulted in significant losses on several of Triton's early contracts.

In addition to the new modular fabrication work, Triton has been able to secure a significant portion of the field installation work related to the process modules. The contracts for the field work tend to be much larger than the associated fabrication contracts, providing Triton with the opportunity to lever the modular fabrication contracts into considerably more work. Triton has over $45 million of carryover on contracts from 2004, which is the largest backlog of work at year-end in the company's history.

The industrial construction market in Alberta, particularly related to oil sands work, is at a historically high level that will result in significant opportunities for Triton over the next five to ten years. Its carryover of work-in-hand is high and the company expects to have resolved the majority of the start-up issues at the fabrication plant. This provides a much improved outlook for 2005.



STUART OLSON



Stuart Olson provides general contracting, construction management and design-build services to clients in the institutional, commercial and light-industrial market sectors. Projects generally entail the construction, expansion or renovation of a building.

The company has particular expertise in serving the construction requirements of the food processing and distribution, multi-unit residential, hospitality, retail, biotechnology, recreational, healthcare, seniors' care and educational sectors.

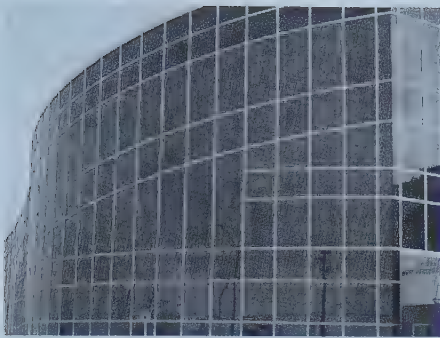
Stuart Olson has been providing construction services since 1939. Today the company is recognized as one of the top ten building contractors in Canada and in the top three in market share in its primary market in western Canada. Major offices are in Calgary, Edmonton and Vancouver. From these bases, Stuart Olson executes projects throughout Canada ranging in size from several hundred thousand to over $90 million.

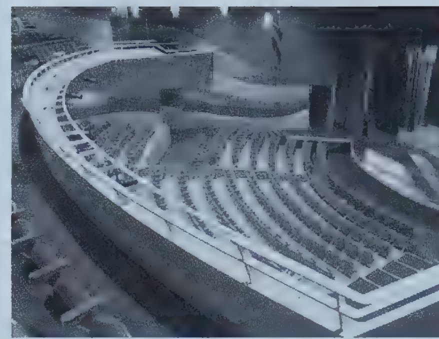
Stuart Olson recovered very well from a poor year in 2003 in which it incurred its first financial loss in many years. This was due primarily to delays in project starts. The majority of these delayed projects commenced construction in 2004 resulting in a turnaround year which saw its revenue grow by 24%. This returned the company to profitability.

Stuart Olson was successful in securing $115.3 million of new contracts during the year and combined with the carryover from deferred projects in 2003, it resulted in an increased level of activity. Much of the company's work was in the public sector which experienced significant government spending on healthcare and education infrastructure. Other markets of activity providing new projects included recreational, food processing and distribution and multi-family residential.

Stuart Olson continues to be a leader in alternative methods of project delivery. These include construction management and design-build. These methods entail working with clients and a design team early in the planning phase of a project to value-engineer the design and plan the construction process. This enhances the value to the client by providing increased cost and schedule certainty and can also provide a single source of responsibility. Construction management projects for both the private and public sectors dominated Stuart Olson's work program in 2004 accounting for over 80% of its revenue.

Large projects accounted for a significant portion of the company's activity during the year. Large projects have a longer duration, which improves the predictability and sustainability of revenue and earnings. Several of the projects that Stuart Olson had under construction during the year were in excess of $50 million and the majority of the balance of its revenue was generated from projects in excess of $15 million in size.





Stuart Olson continued with its successful initiative started in 2003 of providing expertise in the design and construction of sustainable buildings. Clients are becoming increasingly mindful of the importance of designing and building environmentally conscious and energy efficient buildings. Stuart Olson is now recognized as one of the industry leaders in the construction of LEED Certified buildings. LEED (Leadership in Energy and Environmental Design) is an international system to certify projects that meet this high standard.

The market outlook for Stuart Olson is promising for 2005 as Alberta and British Columbia are expected to lead the country in economic growth. These two provinces are the company's major markets. As well, Stuart Olson's particular expertise in healthcare and educational facility construction will benefit as there is significant public sector spending planned in both provinces.

MODULAR FABRICATION FACILITY

In 2004, Churchill embarked on a major new initiative. The Corporation designed, built, commissioned and started up operation of a Modular Fabrication Facility in Lamont, Alberta, northeast of Edmonton.

This facility will allow all of Churchill's industrial companies to move strongly into the rapidly growing modular construction method of building oil sands plants.

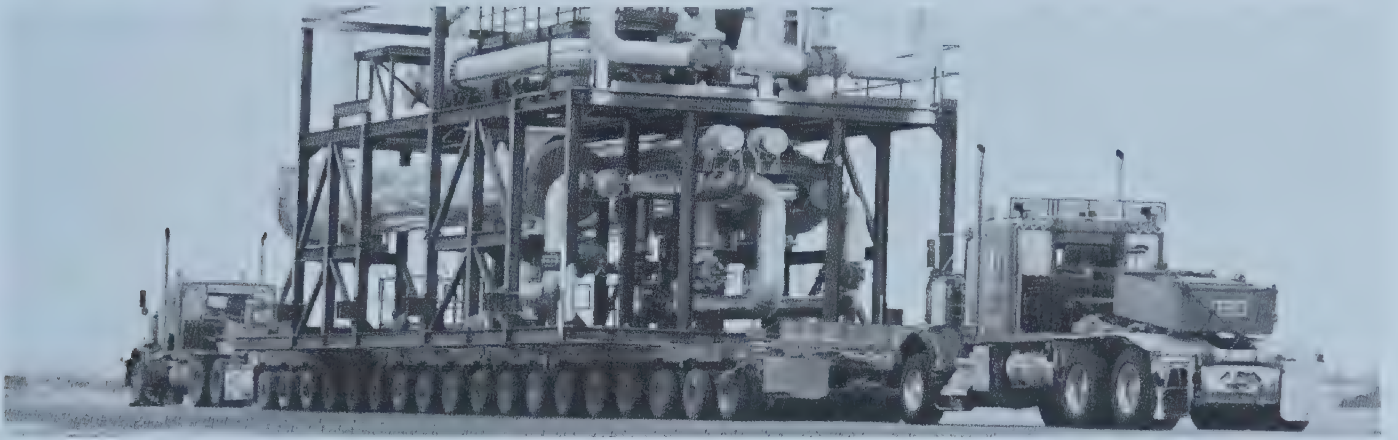
Oil sands projects are increasingly being constructed utilizing off-site fabrication of process modules. These are then transported to jobsites, primarily in northern Alberta, where they are assembled and then dressed out and completed. The attractiveness of this methodology to clients is the better control of quality, cost and schedule of construction. There are significant opportunities for improved economics by building in a controlled environment with availability of a labour force versus constructing at a remote jobsite with the associated additional expenses, such as weather productivity costs or camp and travel costs.

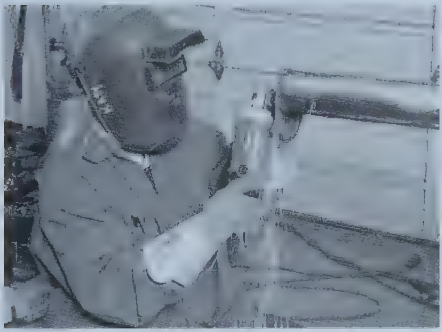
In late 2003 Churchill assembled 160 acres of land and in early 2004 commenced construction on a 45,000 square foot fabrication plant northeast of Edmonton. The site is located near major industrial plant sites including a large chemical processing complex and one of the largest oil sands upgrading refineries in the world. It is also strategically situated on the heavy haul route presently utilized to ship all of the fabricated modules to northern Alberta and on the railway line that could eventually be used for construction traffic to the Fort McMurray region. The facility has eight overhead cranes with over 100 tons in total capacity, a 100 ton continuous floor rail system and 29 state-of-the-art welding machines.

The building was substantially completed in the summer of this year at which time process equipment was installed and commissioned. Soon after, Triton used the facility to commence production on several major contracts for large international oil and gas companies. Subsequently, the company obtained contracts for several major pipeline and oil sands projects that will continue throughout 2005.

In the last half of the year the facility was expanded to include a specialized paint and coatings shop to increase the service offerings to clients.

In addition to providing new fabrication work, Churchill has been able to lever the modular fabrication activities into opportunities for the associated field installation work. The contracts for the field work tend to be many times the size of the fabrication contracts themselves.





Triton has experienced a high level of interest from clients who have awarded, or expressed intentions to award, both fabrication contracts and the associated field work. As well, the company expects to have the opportunity to do the maintenance work on the clients' new facilities upon completion.

Triton incurred higher than expected start-up costs with the modular facility in the execution of its initial contracts. Systems and process changes are being implemented in order to improve the productivity. Plant through-put will be limited to allow for completion of these changes which are expected to be realized by mid 2005.

Although the initial use of the fabrication plant was by Triton, Churchill's other industrial companies will also have access to the facility, should they obtain appropriate work. Northern Industrial Insulation performed insulation work in 2004 on several of Triton's fabrication contracts. In addition to expanding the service offerings to clients, the plant will provide further opportunities for bundling of services through Churchill's various industrial companies.

There are a large number of oil sands plants planned for construction over the next few years. Estimates are as high as $64 billion between 2005 and 2008. Most of the owners of these plants and their engineering teams have expressed a preference for utilizing a modular construction methodology. As such, this should provide considerable opportunities for Churchill's modular fabrication facility going forward.

Management's Discussion and Analysis

The following discussion and analysis of the operating performance and financial position of Churchill, dated March 29, 2005, should be read in conjunction with the December 31, 2004 Consolidated Financial Statements and related notes on pages 27 to 42 and the Report to Shareholders on pages 2 to 6 of this Annual Report.

FORWARD LOOKING STATEMENTS

Certain statements in this Management's Discussion and Analysis may constitute "forward-looking statements". Although management of Churchill believes its expectations regarding future performance of the Corporation are based on reasonable assumptions and currently available competitive, financial and economic data, market conditions and operating plans, it can give no assurance its expectations will be achieved. Such forward-looking statements involve risk, uncertainties and other factors that might cause the actual results, performance or achievements of the Corporation to vary significantly from any future results, performance or achievements expressed or implied in any forward-looking statements.

KEY OPERATING RESULTS

The following tables set forth certain unaudited historic operating results and financial information referred to in this management's discussion and analysis:

SELECTED ANNUAL INFORMATION

Years ended December 31 ($ thousands, except percentages and per share amounts)	2004	2003	2002
Contract Revenue	334,618	319,398	311,794
Contract Income	17,998	21,304	21,736
Contract Income (%)	5.4%	6.7%	7.0%
Net (loss) earnings	(6,169)	(3,657)	982
Net (loss) earnings per common share Basic and fully diluted ($ per share)	(0.51)	(0.31)	0.09
Total Assets	122,308	102,829	98,970
Total long-term financial liabilities	1,849	5,635	17
Cash dividends declared per share	-	-	-
Outstanding shares at December 31, 2004	12,238,352	11,863,652	10,864,040
Outstanding shares at March 29, 2005	12,271,686		

The above information is impacted by the following items:

(1) The acquisition of Laird Electric occurred on February 7, 2003. Laird's revenue for the period from acquisition to December 31, 2003 was $25.5 million and for the year ended December 31, 2004 was $19.7 million.

(2) Churchill's 41% interest in the Lafrentz Road Services business was sold in early 2003. Churchill's equity investment and management fee revenues from Lafrentz were $0.2 million in 2003 and $0.4 million in 2002.

(3) Churchill's new modular fabrication facility was constructed and commenced operation in 2004. The total carrying value of the asset was $7.2 million at December 31, 2004 and the Corporation's long-term debt increased during the year by $4.0 million in order to finance the facility. At December 31, 2004, due to larger than expected fourth quarter operating losses associated with the start-up of the fabrication facility, the Corporation was not in compliance with certain of its debt covenants. As a result, the portion of long-term debt outstanding with the lender at December 31, 2004 that was not scheduled to be repaid in the next 12 months has been reclassified as a current liability. The amount of this reclassification is $6.6 million.

Overview

Churchill has not performed well from a financial standpoint over the past three years. The major performance problem in 2004 was related to significantly larger start-up costs on the new modular fabrication facility. The start-up issues included lower than expected productivity and higher indirect costs that resulted in significant losses on the initial projects executed by Triton utilizing the facility. These losses occurred primarily in the fourth quarter of the year. The Corporation's immediate objective is to return to profitability as well as to replace the working capital lost due to the poor operating results.

Notwithstanding the financial disappointments, there have been improvements and successes achieved in a number of areas. Stuart Olson rebounded from a poor year in 2003 to increase revenue and improve both operating margins and income in 2004. In addition to its work-in-hand entering 2005, the company is in negotiations for several hundred million dollars of additional contracts for the year. Both Fuller Austin and Laird have large contracts in hand for oil sands related work that will be executed during the year. Although Triton incurred substantial losses in 2004 related to projects utilizing the new fabrication facility, the company has made significant progress in identifying the problems and in developing systems and procedures to improve the operation of this facility going forward.

The financial losses of the last few years have reduced Churchill's working capital. The Corporation is in the process of arranging for additional financing to replenish the working capital required to fund both the present work program as well as growth opportunities.

Upon achieving the desired level of profitability, Churchill will be in a position to determine the best opportunities for growth.

Churchill's strategic vision is to build a highly profitable and sustainable construction, maintenance and industrial services business.

Churchill constructs buildings and provides industrial construction and maintenance services. In 2004 the Corporation operated through five business segments –

- Buildings – constructs commercial, institutional and light-industrial buildings
- Industrial General Contracting – provides heavy-industrial general contracting, fabrication and maintenance services
- Industrial Insulation Contracting – provides industrial insulation, maintenance and related services
- Industrial Electrical Contracting – provides industrial electrical, instrumentation and power-line construction and maintenance services
- Corporate and Other – includes corporate costs not allocated directly to another business segment as well as any miscellaneous investments

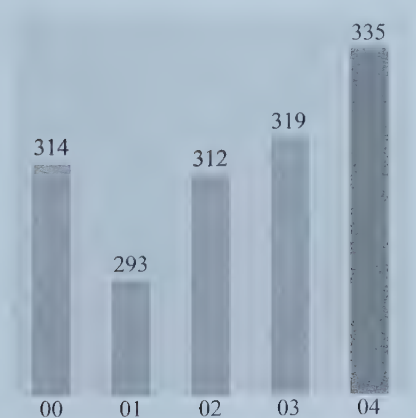
In February 2003, Churchill acquired Laird Electric. Prior to that date the Corporation operated with four business segments.

The Industrial Insulation Contracting segment was renamed from Industrial Subcontracting for segmental disclosure purposes commencing March 31, 2003, to better reflect the nature of its business.

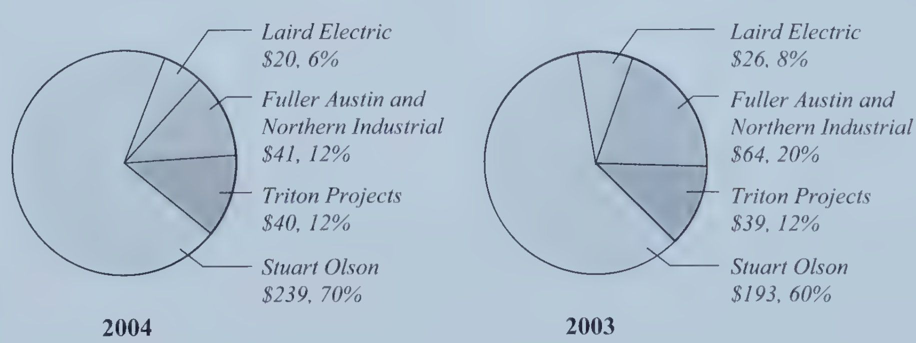
Churchill provides strategic direction, operating advice, financing and infrastructure services to each of the business segments. Churchill's senior management includes Hank Reid, Interim President and Chief Executive Officer; Al Stowkowy, President, Stuart Olson Construction; Bruce Rintoul, Vice President, Industrial; and DeEtte Mack, Corporate Controller. Each business segment has its own President and senior management team, and is designed to be self-supporting.

During 2004, there were several major changes to Churchill's senior management. Gary Bardell stepped down in November as the President and Chief Executive Officer. Hank Reid, who led the Corporation through a successful twelve year period from 1991 to 2003, returned as Interim President and CEO. At year-end, Ian Morris, Vice President Finance and Chief Financial Officer, left the organization. DeEtte Mack, CA, the Corporate Controller, subsequently assumed the duties of the chief financial officer.

REVENUE ($ Millions)



REVENUE MIX ($ Millions)



QUARTERLY FINANCIAL INFORMATION

($ millions, except per share data and percentages)

	2004				2003			
	Dec. 31	Sept. 30	June 30	Mar. 31	Dec. 31	Sept. 30	June 30	Mar. 31
Contract Revenue	$101.8	$82.7	$77.3	$72.8	$95.8	$84.2	$77.2	$62.2
Contract Income	1.9	5.4	6.2	4.5	7.2	5.1	6.1	2.9
Contract Income (%)	1.9%	6.5%	8.0%	6.2%	7.5%	6.1%	7.9%	4.7%
Net (Loss) Earnings	(3.7)	(1.0)	(0.2)	(1.3)	(0.5)	1.0	(2.4)	(1.8)
Net (Loss) Earnings per share								
Basic and fully diluted	(0.31)	(0.08)	(0.01)	(0.11)	(0.04)	0.09	(0.21)	(0.16)
Work-in-Hand	251.5	338.4	347.0	298.5	313.7	393.5	393.8	402.7
Working Capital	3.0	9.9	13.0	15.2	17.6	19.0	17.8	19.7
Shareholders' Equity	24.9	28.5	29.5	29.2	30.5	30.8	29.7	32.1
Book Value per share	2.03	2.34	2.41	2.46	2.57	2.62	2.53	2.74

The business is generally affected by seasonal fluctuations such that the latter two quarters of the year tend to have higher revenue. Increased revenue was incurred in the last quarter of 2004 indicating a general improvement in the Corporation's markets.

Contract income margins can be influenced by bidding, procurement, and contracting activity that may have taken place well over a year prior, when circumstances may have been much different than the present.

The Corporation finalized a settlement in 2003 on a construction project commenced in 2001 by Stuart Olson for JTB Canadian Pork. In February 2003 the receiver-manager of JTB Canadian Pork accepted a $5.5 million offer for the assets of JTB. Over the course of five months the potential purchaser paid in excess of $1.1 million in non-refundable deposits. However, by the middle of the year it became apparent that the potential purchaser had not been successful in raising the remaining funds, and their deal collapsed. There being no other purchasers expressing interest at that point, Churchill booked a bad debt allowance of $3.0 million as at June 30, 2003, writing the net receivable down to zero. After contemplating the alternatives, the receiver-manager began anew the process of seeking potential buyers but at a lower price. Shortly thereafter several purchasers expressed interest, and the receiver-manager negotiated and closed the sale of the assets for a price of $3.3 million. This resulted in a net recovery at September 30, 2003 of the $3.0 million bad debt allowance set up in the previous quarter.

The significant drop in contract income in the fourth quarter of 2004 is primarily due to large losses incurred on early contracts executed utilizing Churchill's new modular fabrication facility.

Work-in-hand at December 31, 2004 was $251.5 million, which is the lowest of these eight quarters. Churchill's industrial businesses all had a larger backlog of work at year-end 2004 than at the prior year end. Stuart Olson's work-in-hand was lower by $123.8 million. Although Stuart Olson's market in 2004 was strong, it had numerous project opportunities for which the company was awaiting contractual agreements and as such these additional opportunities are not reflected in its backlog.

Results of Operations

The consolidated results of operations, cash flow and financial position of the Corporation for the year ended and as at December 31, 2004 are included on pages 27 to 42.

The Churchill Corporation acquired Laird Electric Inc. on February 7, 2003. The consolidated results for the year ended December 31, 2003 include the results of Laird Electric from the date of acquisition to December 31, 2003.

In order to understand more clearly the operating results for The Churchill Corporation, the discussion within this Management's Discussion and Analysis will be focused at the business segment level, the results of which are shown on page 41.

Fourth Quarter Results

The quarterly financial information as at March 31, June 30, and September 30, 2004 has been presented and analyzed in the quarterly reports to shareholders. The Corporation does not produce a separate quarterly report for the fourth quarter. As shown in the Quarterly Financial Information on page 16, the activities for the three months ended December 31, 2004 resulted in revenue being up substantially, to $101.8 million from $82.7 million in the previous quarter and $95.8 million during the comparable period in 2003. This strong increase in revenue is indicative of a strengthening in the market with a lessening of the effects of project delays. Stuart Olson's revenue for the quarter was $61.7 million, an increase of $3.1 million compared to the same period in 2003. Triton's revenue increased by $9.9 million to $19.3 million and Laird increased by $0.8 million to $5.7 million. Churchill's insulation companies were the only segment with lower revenue at $15.8 million compared to $22.5 million in the fourth quarter of 2003. The net loss for the three months ended December 31, 2004 was $3.7 million as compared to a net loss of $0.5 million for the three months ended December 31, 2003. The loss in the fourth quarter of 2004 was primarily as a result of major losses incurred on the early contracts executed by Triton utilizing Churchill's new modular fabrication facility. Triton incurred a net loss before tax of $6.0 million during the quarter. Laird had a net loss before tax of $0.5 million, while both Stuart Olson and Industrial Insulation Contracting were profitable with earnings before tax of $0.9 million and $0.3 million, respectively, for the quarter.

Annual Results

For the year ended December 31, 2004, The Churchill Corporation had a net loss of $6.2 million on revenue of $334.6 million, or a net loss per share of $0.51 for the year. For the year ended December 31, 2003, The Churchill Corporation had a net loss of $3.7 million on revenue of $319.4 million, or a net loss per share of $0.31.

Year over year revenues for the consolidated group increased $15.2 million. As discussed, the 2003 results include Laird from its date of acquisition. In 2004 Laird had a slower than expected year with revenue of $19.7 million, a decline of $5.8 million compared to the shorter period of 2003. Revenues also declined in the Industrial Insulation Contracting group with a reduction of $22.8 million. Triton Projects experienced a moderate revenue increase in 2004 of $1.8 million while Stuart Olson had an excellent year with revenue increasing by $46.3 million. Revenue of the consolidated Churchill Corporation included an elimination of $5.8 million for the year, an increase of $4.2 million over 2003. This elimination occurs when one of Churchill's companies performs work for another; in 2004 this was primarily related to the construction of the fabrication facility.

The net loss of $6.2 million for the 2004 year is after the accrual of future income taxes recoverable of $2.5 million and the accrual of $0.9 million of current taxes recoverable. The future income taxes recoverable are a result of timing differences related to certain tax reserves. The current taxes recoverable recorded in the financial statements result from a net recovery of taxes paid in prior years due to the carryback of current year tax losses.

Buildings

For the year ended December 31, 2004, Stuart Olson had revenue of $239.2 million, compared to $192.9 million in the prior year.

Stuart Olson entered the year with a backlog of $263.5 million. During 2004 the company secured a further $115.3 million of contracts, net of contract revisions, and executed and took

into revenue $239.2 million. It ended 2004 with a backlog of $139.6 million. The lower level of backlog relative to year-end 2003 is not indicative of a slowdown in the company's market. Stuart Olson's market improved in 2004 as reflected by the 24.0% increase in revenue on a year over year basis. The reduction in backlog is primarily related to the stage the company is at in negotiations on new contracts, in that numerous contracts had not been finalized at year-end and were thus not recognized as work-in-hand.

Contract income increased substantially from $6.8 million in 2003 to $12.0 million in 2004, and also increased as a percentage, from 3.5% of revenue to 5.0%. This is indicative of the improving markets the company is facing as well as a result of positive changes in its processes and procedures.

Industrial General Contracting

Triton Projects experienced another year of financial losses. Its traditional markets were slow during the first half of the year as new oil sands projects had not moved into the construction phase. The market improved considerably during the second half and Triton was able to secure new work. However, the company incurred major losses due to start-up costs and associated production issues on two new projects executed utilizing Churchill's new modular fabrication facility. Triton's revenue for the year ended December 31, 2004 was $40.4 million, up 4.6% from $38.7 million for the year ended December 31, 2003. 73.7% of the company's total 2004 revenue occurred during the last two quarters of the year indicating a strong improvement in its market.

Operating margins were a negative 5.3% in 2004 as compared to a positive 8.9% in 2003. This is primarily a result of the major losses incurred on the company's two fabrication shop contracts as well as a project loss on a field construction contract. Triton recorded a loss before income taxes of $8.3 million for the year ended December 31, 2004, as compared to a loss before income taxes of $2.9 million for the year ended December 31, 2003. In 2003 the positive operating margin produced from the lower level of revenue was not sufficient to recover all of the general and administrative expenses for the year.

As reported in our June 30, 2003 Second Quarter Report, Triton took a $1.0 million charge in the first half of the year 2003 for severances and early retirements as its management reduced overheads and repositioned operations to better match market conditions.

Triton began 2004 with $12.1 million of work-in-hand. All of this was executed and brought into revenue for 2004. In addition, the company secured $73.9 million of new work during the year, and executed $28.3 million, leaving $45.6 million to be executed in 2005.

A significant portion of the capital projects in enhanced oil recovery and oil sands is expected to be constructed using a modular system. With this approach the component parts are constructed within the controlled environment of a fabrication facility and yard, then moved to the site and installed. Churchill completed the construction of a new modular fabrication facility in the third quarter of 2004. Triton Projects was the largest beneficiary of work, both within this facility, and the related field installation work.

Triton incurred much higher than expected start-up costs on its initial fabrication contracts. These additional costs were reported in a press release dated January 20, 2005 to be approximately $4.5 million higher than anticipated. Churchill is investing considerable resources to streamline process efficiency and improve control at the fabrication plant. Process changes have been implemented and significant improvements have been achieved to date. Triton will limit plant through-put to allow for completion of these changes and will not gear up to full capacity until consistent profitability has been demonstrated.

Industrial Insulation Contracting

Industrial Insulation Contracting operates under three business units – Fuller Austin, Northern Industrial, and Lakehead Insulation – all providing insulation related contracting services for capital projects and maintenance work. Lakehead is a subsidiary of Fuller Austin.

The Industrial Insulation Contracting segment performed well in 2004 although not to the same level as 2003. Revenues were down, while operating margins were up considerably from the previous year. Revenues for the year ended December 31, 2004 decreased by 35.7% from 2003, to $41.1 million from $63.9 million. This was similar to 2002 where revenues were $44.3 million. In the early part of 2004, the insulation companies were busy in modular fabrication yards in the Edmonton area on several large oil sands projects destined for the Fort McMurray area. Upon the completion of this work the companies experienced a slowdown as their clients had not yet initiated the field installation component. Subsequently, Fuller Austin secured several large contracts for these components and construction commenced in late 2004.

In 2003 the insulation companies executed a number of larger projects with lower operating margins than their traditional work. Consequently, the overall margin for the year ended December 31, 2003 was 10.6%. In 2004, they executed smaller, higher margin work resulting in an overall operating margin of 15.4%.

Earnings before taxes for the year ended December 31, 2004 were $1.7 million, as compared to $2.5 million for the year ended December 31, 2003.

Industrial Insulation Contracting entered 2004 with a work-in-hand backlog of $14.4 million. The companies secured $48.9 million of new contracts in 2004. They executed and took into revenue $41.1 million. They enter 2005 with a backlog of $22.2 million.

Industrial Electrical Contracting
Churchill acquired Laird Electric in February 2003. The December 31, 2003 financial statements for The Churchill Corporation include the results for Laird Electric from the date of acquisition to the end of the year.

Churchill acquired all of the issued and outstanding shares of Laird Electric for $9.7 million and all of the shareholders' loans for $5.4 million. In addition Churchill paid a refundable deposit of $1.0 million for a total outlay of $16.1 million. The consideration was paid by way of $13.9 million cash and the issuance from treasury of 826,412 Churchill Common Shares. In order to complete the transaction, Churchill secured $8.0 million of term financing.

The deposit on acquisition relates to contingent consideration held in escrow and is secured by 413,205 of Churchill shares held by an escrow agent without further recourse. The contingent consideration will be released from escrow at December 31, 2005 if Laird fulfills certain cumulative performance criteria. Should Laird achieve the required performance criteria, the deposit will be recorded as goodwill. If Laird does not achieve the required performance criteria, the deposit will be reversed with a corresponding reversal of share capital related to shares held in escrow and any applicable contributed surplus.

The purchase price was allocated $6.3 million to net tangible assets, $1.5 million to a customer contract and certain employment contracts, $1.0 million to refundable deposits and $7.3 million to goodwill. The assets acquired included $6.2 million of receivables, $0.4 million of inventory, $1.0 million of property and equipment, and $1.0 million of cash. The liabilities assumed included $1.7 million of trade and government obligations, and $0.3 million of financing related to the purchases of vehicles. The value assigned to intangible assets of $1.5 million consisted of the present value assigned to a maintenance contract with Laird Electric's largest customer, which expired in the first quarter of 2004, and the value assigned to the employment contracts with the senior management of Laird Electric. These contracts include a clawback of the purchase price in the event the individuals do not remain with the company through the full three-year retention period. The $1.5 million is being amortized over its estimated life. At December 31, 2003 the unamortized value of these intangible assets was $0.8 million. At December 31, 2004 the unamortized value of these intangible assets was $0.2 million.

Laird Electric generated $19.7 million of revenue in 2004. This is a reduction from the $25.5 million of revenue for the period from acquisition to December 31, 2003. Delays in the start-up of construction on many of the new oil sands projects in northern Alberta caused its revenue to be considerably lower than expected. As well, a major client postponed a significant amount of on-going maintenance work into 2005 resulting in lower contract revenue for 2004. This work is proceeding in 2005.

Operating margins were 8.9% in 2004 compared to 15.5% during the period in 2003 from the acquisition date. Laird incurred an operating loss before taxes of $1.4 million compared to earnings before taxes of $1.2 million for the 2003 period. The lower operating margins were as a result of the company more aggressively competing for contracts in a slower than expected market. As well, the deferment of a large amount of its regular maintenance work affected overall margins as this work is generally higher margin than Laird's other types of projects. The lower operating margins combined with the lower level of revenue were not sufficient to recover all of the general and administrative expenses for the year, resulting in an operating loss.

By year-end 2004, Laird's market improved significantly. The company secured $21.1million of new work in the last quarter and in early 2005 obtained an additional large contract from its major client. This work-in-hand, together with confirmation that its annual maintenance contract that was deferred in 2004 will be proceeding in 2005, provides management with a much improved forecast for the coming year. Laird's poor financial results in 2004 were due primarily to a lack of revenue as opposed to project execution issues and thus the company's prospects are much improved going forward.

Laird had a backlog of work of $23.8 million entering 2004. It secured $40.0 million of new contracts during the year and executed $19.7 million of work. It enters 2004 with a work-in-hand backlog of $44.1 million.

Corporate and Other
In 2004, $24.8 million of Indirect and Administrative expenses were incurred by the Churchill group of companies, compared to $22.9 million for the year ended December 31, 2003. During the year, Laird Electric and Triton reclassified a portion of their expenses from contract costs to indirect and administrative costs to be consistent with the reporting methodology of Churchill's other operating companies. This resulted in approximately $1.0 million of higher indirect and administrative costs with a corresponding reduction in contract costs. The 2003 figures in the financial statements have been adjusted for comparison purposes. This adjustment does not affect the net earnings (loss) for the year.

The increase of 8.2% in Indirect and Administrative expenses is due primarily to increases in salaries, training and facility costs, as well as a reclassification of direct job costs. Laird

Electric costs are included for the full year in 2004 compared to approximately 11 months included from the date of acquisition in the 2003 year-end. The industrial group underwent a reorganization of business development, safety and human resources during 2004 that involved increased salary, travel and business promotional costs. Costs of preparing for compliance with the new public company regulatory requirements were incurred in 2004 with no comparable costs in the prior year. Facility costs increased in accordance with normal building lease renewals as well as additional costs associated with the completion of the new fabrication facility. Included in the costs for the current year are charges for stock-based compensation expense in accordance with the new accounting policy.

Churchill's 41% interest in the Lafrentz Road Services business was deemed to be non-core and was sold in early 2003. The distributed proceeds received on the sale were $1.6 million, resulting in the Corporation recording a small gain.

The Corporation incurred legal fees during the year ended December 31, 2004 with a law firm for which a Director of the Corporation is also a partner of the firm. The fees were for services rendered in the ordinary course of business. The amount paid during the year was $194.0 thousand.

At December 31, 2004 the Corporation had an interest bearing demand loan outstanding to the former President and Chief Executive Officer to assist with housing arrangements in Edmonton in order to allow him to maintain offices in both Edmonton and Calgary. In addition, in relation to this housing arrangement, market-rate rent payments were made by the Corporation in the amount of $24.0 thousand during the year. Churchill has the option, renewable annually, to continue the monthly rent payments through September 30, 2006.

In late 2004 Churchill set up a new special committee of the Board of Directors. The mandate of this committee is to work with senior management to review the operational and control systems and to implement measures for improvement. The compensation for the committee members is over and above the fees and disbursements contemplated in their role as Directors and members of the Corporation's various standing committees. This committee is expected to operate through the first two quarters of 2005. The fees paid during 2004 to the special committee members were $62.0 thousand.

CUMULATIVE RETURN ON $100 INVESTMENT

Cash Flow, Financing, Capital Requirements, Liquidity

For the year ended December 31, 2004, Churchill consumed $5.5 million of cash through its revenue generating activities. The Corporation generated $10.8 million of cash flow through reduction of working capital, related in part to the timing of collections and payments. This resulted in a net cash flow from operating activities of $5.3 million. For the year ended December 31, 2003, Churchill consumed $5.7 million of cash through its revenue generating activities and reduced working capital by $12.5 million, resulting in a net cash flow from operating activities of $6.8 million.

Churchill's working capital position at December 31, 2004 was $3.0 million as compared to $17.6 million at December 31, 2003. The reduction in working capital was primarily due to three issues: a reclassification of a portion of long-term debt to a current liability, net losses during the year and investment in capital assets.

Churchill's $8.0 million loan arranged for the acquisition of Laird Electric in 2003, the $4.0 million five year term loan arranged for the fabrication plant construction in 2004, and other lines of credit are subject to certain debt covenants calculated on a quarterly basis including, but not limited to, tests of tangible net worth, leverage and interest coverage. At December 31, 2004, due to larger than expected fourth quarter losses, the Corporation was not in compliance with certain of its debt covenants. The lender is in a position to demand repayment of any balances outstanding under these facilities. As a result, the portion of long-term debt outstanding with the lender at December 31, 2004, which was not scheduled to be repaid in the next 12 months, has been reclassified as a current liability. This reclassification was $6.6 million. The Corporation monitors the financial covenants on a continuous basis.

Losses during the year accounted for a further reduction of $6.2 million in working capital. The balance of the reduction of approximately $8.7 million was due to capital investments of which the modular fabrication facility accounted for the majority.

In order to increase the level of working capital the Corporation is in the process of negotiating additional financing. This includes subordinated debt and an increased operating line of credit. Churchill is also considering obtaining additional equity and/or debt funding in 2005 to regain compliance with its debt covenants and to finance growth plans. As well, negotiations are underway with Churchill's lender to increase specific operating lines of credit to fund day-to-day operations as a result of the successes of Fuller Austin and Laird in securing two large oil sands related industrial construction projects.

Capital expenditures for the year ended December 31, 2004 were $8.7 million as compared to $2.4 million for the year ended December 31, 2003. In 2004 the Corporation commenced and completed construction of a new modular fabrication facility for use by its industrial companies. Approximately $7.4 million was spent on the construction of this facility during the year. The remaining $1.3 million of capital expenditures in 2004 were primarily to replace portions of, or add to, the vehicle and equipment fleets.

Contractual Obligations

($ Millions)

December 31, 2004	Total	Current Year	2-3 Years	4-5 Years	After 5 Years
Acquisition Loan	$ 5.2	$ 1.6	$ 3.2	$ 0.4	$ -
Finance contracts and capital lease obligations	6.0	1.2	2.2	1.5	1.1
Purchase Obligations	0.1	0.1	-	-	-
	$ 11.3	$ 2.9	$ 5.4	$ 1.9	$ 1.1

The acquisition loan, finance contracts and capital lease obligations are more fully described in Note 14 of the Notes to the Consolidated Financial Statements that are included in this Annual Report.

The purchase obligations represent enforceable commitments made by the Corporation pertaining to the new modular fabrication facility, and will be paid in 2005.

Churchill added $5.9 million to long-term debt during the year. This consisted of a $4.0 million, five year term loan with its existing lender and a $1.3 million, five year mortgage on one of its properties to finance the construction of the new modular fabrication facility, as well as $0.6 million of other long-term debt to fund additions to the vehicle fleet. As described above, $6.6 million of the long-term debt was reclassified as a current liability at year-end 2004.

Churchill repaid $2.2 million of debt during the year ended December 31, 2004. Of these repayments, $1.6 million were the scheduled payments on the Laird Electric acquisition loan and $0.2 million were the scheduled payments on the term loan. The remainder consisted primarily of scheduled payments on dealer financing for vehicles.

Churchill began 2004 with $14.6 million in cash, of which $4.4 million was subject to certain deemed trust conditions. All of the operating, investing and financing activities throughout 2004 reduced the Corporation's cash by $2.9 million. At December 31, 2004 Churchill had $11.7 million of cash, of which $10.5 million was subject to deemed trust conditions under the British Columbia Lien Act. As well, the Corporation had $4.0 million of term deposits which is held as security by the Corporation's bank.

The scheduled debt repayments for 2005 are $2.8 million. The level of required replacement capital spending for Churchill is estimated to be in the range of $4.6 million a year. These requirements are expected to again be met through a combination of operating and financing activities.

Churchill is a partner in two joint ventures. In each instance the Corporation has provided a joint and several guarantee, increasing the maximum potential payment to the full value of the work remaining under the contract. The Corporation also provided a joint and several guarantee as part of the transaction in the first quarter of 2003 in which Churchill's interest in the Lafrentz Road Services business was sold to a third party. There is no maximum potential payment under the guarantee. The Corporation placed a portion of its proceeds into an escrow account until February, 2008 to provide in part against potential claims under the guarantee.

As part of the purchase of Lakehead Insulation by Fuller Austin in January, 2002, there was a potential future consideration of up to $0.3 million payable to the vendors based on Lakehead's earnings for the three year period ending December 31, 2004. No contingent consideration was earned under this arrangement.

Shareholders' equity was $24.9 million at December 31, 2004, as compared to $30.5 million at December 31, 2003. The 2004 value includes $7.3 million of goodwill, against which there is $5.2 million of long-term debt.

Share capital increased $0.5 million from January 1, 2004 to December 31, 2004 as a result of 382,000 stock options being exercised, offset by 7,300 shares being purchased and cancelled under the Normal Course Issuer Bid. The Normal Course Issuer Bid shares were purchased at an average price of $2.44 per share. During 2004, Contributed Surplus increased by $0.3 million over the $5.1 million balance that was reflected at December 31, 2003. This increase is the result of applying the new accounting principle related to stock-based compensation, and is detailed in Note 16 of the Consolidated Financial Statements and related notes included in this Annual Report. Retained Earnings declined from $21.6 million at December 31, 2003 to $15.2 million at December 31, 2004, reflecting the $6.2 million net loss for the year, as well as the impact of the stock-based compensation accounting policy and the Normal Course Issuer Bid activity.

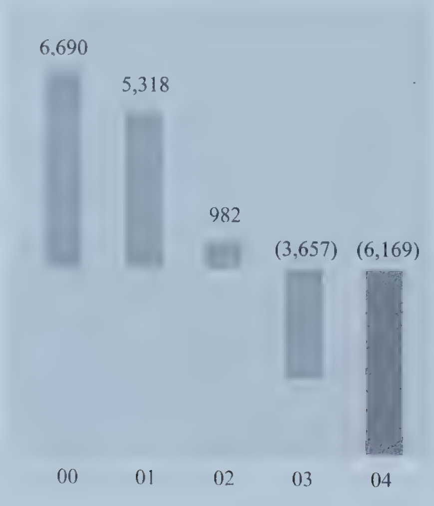
As discussed in Note 16 to the Consolidated Financial Statements and related notes contained within this 2004 Annual Report, options to acquire 382,000 Common Shares were exercised for cash during the period January 1, 2004 to December 31, 2004.

As at December 31, 2004 the Corporation had outstanding 12,238,352 Common Shares and 564,334 options convertible into Common Shares (December 31, 2003 – 11,863,652 Common Shares and 1,046,334 options).

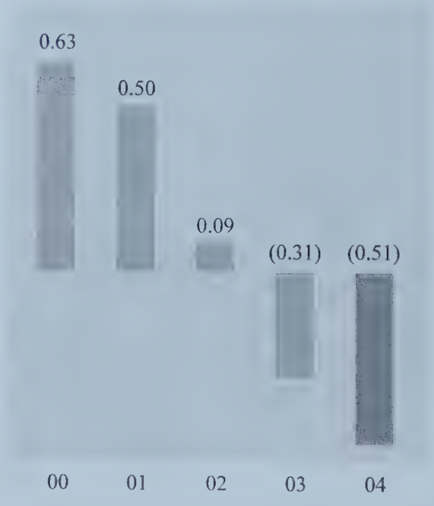
The Corporation has an Employee Share Purchase Plan available to all full-time employees. At December 31, 2004 the Plan held 1,282,182 Churchill Common Shares for the employees. Under the Plan, shares are acquired in the open market.

The Corporation maintains a Share Option Plan for Directors and Officers, under which 564,334 options were outstanding as at December 31, 2004. In addition to the 382,000 options exercised during the year, there were 100,000 options cancelled. There were 461,666 options available for grant at December 31, 2004.

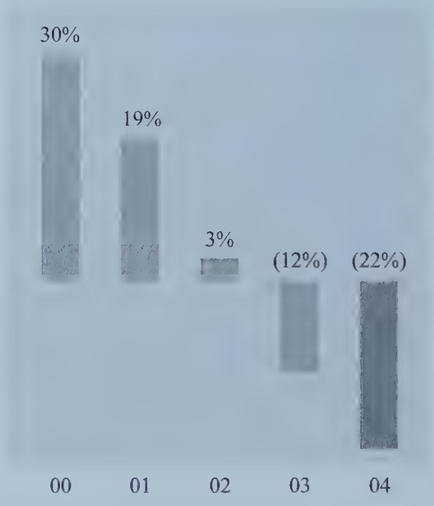
NET (LOSS) EARNINGS ($ Thousands)



NET (LOSS) EARNINGS PER COMMON SHARE ($ Basic)



RETURN ON AVERAGE SHAREHOLDERS' INVESTMENT (%)



Risks and Risk Management

Churchill's operations are centered in and primarily focused on western Canada. The majority of construction in western Canada, particularly industrial construction, is either directly or indirectly connected to oil and gas. Oil and gas pricing and activity levels are directly impacted by worldwide events. The Corporation utilizes various third-party estimates of the price movement direction and level as background information in managing various mid-term aspects of its business. Significant downward movement in oil or gas commodity prices could lead to project delays or cancellations by clients, while significant upward movement could lead to clients looking to accelerate the project schedule. Either movement could put pressure on Churchill's organizational infrastructure in the short term.

The climate in western Canada can generate severe weather, which could slow down or delay construction for short periods of time, impacting costs and delivery schedules.

Permitting, engineering and design that happen in advance of construction can lead to a delay. Stuart Olson participates in design-build projects where it takes on the additional risk of design-related flaws or failures. This risk is reduced by utilizing external consultants for the design component as well as purchasing appropriate insurance protection. Delays and/or design remediation work could result in additional contract costs that may not be reimbursed by the client.

Churchill's operating companies are often required to provide performance bonds as assurance against contract completion. As a result of the recent worldwide reduction in surety and reinsurance capacity, the Corporation is continually monitoring the bonding and surety market. Although the present surety capacity has been sufficient to satisfy the work-in-hand, Churchill is seeking to increase the level through additional working capital in order to take advantage of opportunities in the market. Should the Corporation be unsuccessful in increasing the working capital and in turn the bonding capacity, then this would limit growth as well as potentially having an adverse affect on the on-going operations.

Once a project has begun, the project management team must constantly monitor estimating, procurement, project execution, and contract terms. All of these risks are controllable by management. Churchill assesses its project controls on an ongoing basis.

In past periods of high construction activity in western Canada there have been shortages of labour, including both Churchill companies' and their subcontractors' work forces. In certain of the companies, the labour force is unionized, creating the possibility of labour disruptions if collective agreements cannot be negotiated as they come due. There are no collective agreements expiring in 2005 for any of Churchill's companies.

In 2004 Churchill completed the construction and initiated operation of a new modular fabrication facility. Many of the components of the operation of the facility are similar to the types of work carried out by the Corporation's various businesses in their normal construction activities; however, there are a number of differences in running a fabrication plant. These differences manifested during the year in unforeseen start-up costs, lower than expected productivity and requirements for new processes and controls. This is a new element of risk for the Corporation. It is being addressed through an external review by independent consultants as well as internally by senior management and the Board of Directors.

Churchill's industrial operations generally require a higher level of working capital due to a larger manpower workforce on projects. The Corporation's ability to obtain additional capital is important in order to achieve the strategy of expansion in the industrial market. A shortfall of working capital would limit this growth and reduce the industrial revenue potential.

In the past Churchill has grown by acquisition, including the acquisition of Laird Electric in 2003. The success of any acquisition is dependent upon the integration of the acquired company into Churchill's operations. Churchill's ability to undertake future acquisitions is limited by the Corporation's ability to access financing.

Churchill's management is constantly assessing the Corporation's exposure to some form of catastrophic risk, and where possible and economically feasible, would buy insurance protection to mitigate that risk.

The Board of Directors of the Corporation, while remaining committed to the present strategic and operating plans, has been increasingly concerned about the poorer than expected financial results over the last few quarters of 2004. Late in the year the Directors, together with senior management, formed a special committee. The committee's mandate is to review the operational and control systems of the companies experiencing difficulties, and to implement measures for improvement.

2005 Outlook

Churchill's markets for new work all appear to be strong for 2005 and considerably improved from those of the past few years. Alberta and British Columbia are forecast to lead the country in economic growth in the coming year. The oil sands and heavy oil mega projects are moving into the construction phase with independent analysts identifying $64 billion of major projects planned for the next three to five years. The carryover of industrial work is at an historically high level for the Corporation and Stuart Olson has significant new contract opportunities that are close to finalization in addition to their work-in-hand. As a consequence of the losses of the past few years, it is important that Churchill completes an arrangement for new financing and capital structure in order to take advantage of these opportunities. Management and the Board of Directors are viewing this as the prime driver for success going forward.

The Churchill Corporation enters 2005 with a backlog of $251.5 million, of which $234.3 million is expected to become earned revenue in 2005 and $17.2 million is expected to carry forward into 2006 or later.

Of the $234.3 million of backlog expected to be taken into revenue in 2005, $106.1 million is from projects already underway, reducing the risk of project cancellation or delay. An additional $52.0 million is generated from maintenance contracts, which clients generally do not defer. The remaining $76.2 million of the backlog relates to projects that had not commenced at December 31, 2004. In general, these projects have a higher degree of risk of being delayed or cancelled, although in this instance, a number are government related projects that have received approval, including funding, and should commence on schedule.

Stuart Olson experienced a good year in 2004 and its market is likely to strengthen in 2005. The company enters 2005 with $139.6 million of backlog, of which $135.4 million is expected to be realized as revenue in 2005.This represents 58.4% of its 2004 revenue level. The Alberta building construction market is very positive and the British Columbia market has strengthened markedly over the last year. With major government investment planned for schools, hospitals and long-term health care in Alberta and British Columbia this should result in Stuart Olson surpassing its 2004 revenue.

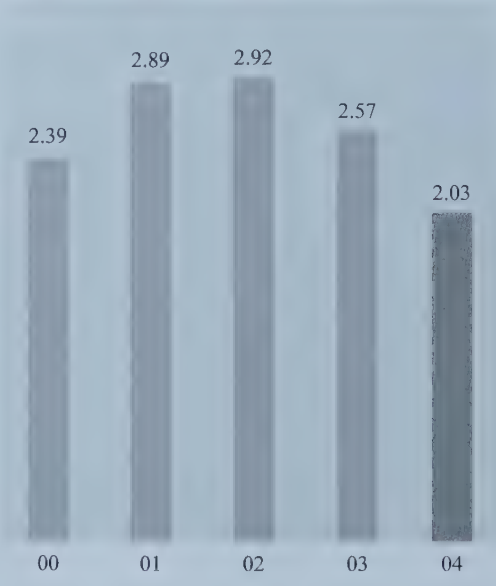
Triton Projects enters 2005 with $45.6 million of backlog. This is considerably higher than the last few years and as such it is expected that the company's revenue should be higher in 2005. The major issue with Triton will be to rebound from its poor performance in 2004 on fabrication plant contracts and to achieve positive returns going forward. As new systems and processes are implemented to remedy this situation, it is expected that 2005 will be an improving year, although not to the desired levels of return.

The Industrial Insulation Contracting group had another strong year in 2004. The companies enter 2005 with $22.2 million of backlog for execution in the coming year, which is at an historically high level for their businesses. As much of their oil sands related work is moving into the construction phase, 2005 is expected to be a very good year.

Laird Electric enters 2005 with a $44.1 million backlog, which is considerably higher than the level of $23.8 million entering 2004. As well, in January 2005 the company was awarded a large contract in the Fort McMurray area for an existing client, scheduled for completion in the year. With this large backlog of work-in-hand and the improvements expected in its core Fort McMurray market, Laird is expected to improve upon its performance of 2004.

The primary objective for Churchill is profitability. The Corporation has a significant backlog of construction entering 2005. Churchill's core construction market in western Canada is strong and is expected to strengthen for a number of years. Management is focused on refinancing the capital structure as well as improving the systems and procedures to ensure that performance is achieved.

BOOK VALUE PER COMMON SHARE ($)



Changes in Accounting Policies

Churchill continues to use the same accounting policies and methods as described in Note 2 attached to the December 31, 2003 Consolidated Financial Statements, except that the Corporation has adopted, effective January 1, 2004, the new CICA Handbook policies related to stock-based compensation and asset impairment.

Stock-Based Compensation - Effective January 1, 2004, the Corporation adopted the fair value based method of accounting for stock options which were granted to employees on or after January 1, 2002, in accordance with the new recommendations of CICA Handbook Section 3870 *Stock-Based Compensation and Other Stock-Based Payments*. The change was adopted retroactively without restatement of the prior year. Under this method, the estimated fair value of the stock options granted is recognized over the applicable vesting period as a charge to stock compensation expense and a credit to contributed surplus. When these options are exercised, the proceeds received and the related amounts of contributed surplus are credited to share capital. For options granted prior to January 1, 2002, the Corporation continues to follow the applicable generally accepted accounting principle under which no expense is recognized; when these options are exercised, the proceeds are a credit to share capital. The impact on the financial statements arising from adoption of the fair value method is disclosed in Note 16.

Asset Impairment - Effective January 1, 2004, the Corporation adopted the new recommendations of CICA Handbook Section 3063 *Impairment of Long-Lived Assets*. Section 3063 requires that the impairment of long-lived assets held for use be established through a two-step process, with the first step determining when an impairment is recognized, and the second step measuring the amount of the impairment. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition, and is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value. An analysis to determine a potential impairment related to the acquisition of Laird Electric was carried out at year-end 2004. This review by management, together with an independent consultant, determined that there was no impairment of the asset at this time. As such there is no material impact on the financial statements resulting from the adoption of Section 3063 either in the current or prior periods presented.

Future Accounting Policies

Variable Interest Entities - The Corporation plans to adopt the CICA Accounting Guideline 15 (AcG-15) on the consolidation of variable interest entities which is effective for annual and interim periods beginning on or after November 1, 2004. Variable interest entities refer to those entities that are subject to control on a basis other than ownership of voting interests. AcG-15 provides guidance for identifying variable interest entities, and criteria for determining consolidation. The Corporation has determined that the adoption of this standard will not have a material effect on its results from operations or financial position.

Financial Instrument - Disclosure and Presentation - In November 2003, CICA Handbook Section 3860 *Financial Instruments - Disclosure and Presentation* was amended to require that certain obligations that may be settled at the issuer's option in cash or the equivalent value by a variable number of the issuer's own instruments be presented as a liability. The amendments are expected to be effective for fiscal years beginning after November 1, 2004, and would be applied retroactively, thus requiring restatement. The Corporation has not yet determined the impact of the adoption of this standard on its results from operations or financial position.

Financial Instrument - Recognition and Measurement - In January 2005, the CICA released new Handbook Section 3855, *Financial Instrument -Recognition and Measurement*, effective for annual and interim periods beginning on or after October 1, 2006. This new section prescribes when a financial instrument is to be recognized on the balance sheet and at what amount, sometimes using fair value, at other times using cost-based measures. It also specifies how financial instrument gains and losses are to be presented, and defines financial instruments to include accounts receivable and payable, loans, investments in debt and equity securities and derivative contracts. The Corporation has not yet determined the impact of the adoption of this standard on its results from operations or financial position.

Comprehensive Income and Equity - In January 2005, the CICA released new Handbook Section 1530, *Comprehensive Income*, and Section 3251, *Equity*, effective for annual and interim periods beginning on or after October 1, 2006. Section 1530 establishes standards for reporting and display of comprehensive income. It defines other comprehensive income to include revenue, expenses, gains and losses that, in accordance with primary sources of GAAP are recognized in comprehensive income, but excluded from net income. The section does not address issues of recognition or measurement for comprehensive income and its components. Section 3251 establishes standards for the presentation of equity and changes in equity during the reporting period. The requirements in this section are in addition to Section 1530 and recommends that an enterprise should present separately the following components of equity: retained earnings, accumulated other comprehensive income, the total for retained earnings and accumulated other comprehensive income, contributed surplus, share capital and reserves. The Corporation has not yet determined the impact of the adoption of this standard on the presentation of the results from operations or financial position.

Terminology

Throughout this 2004 Annual Report management refers to certain terms when explaining its financial results that do not have any standardized meaning under Canadian GAAP as set out in the CICA Handbook. Specifically, the terms "contract income margin percentage" and "work-in-hand" have been defined as –

Contract income margin percentage is the percentage derived by dividing Contract Income by Contract Revenue. Contract Income is calculated by deducting all associated direct and indirect costs from Contract Revenue in the period.

Work-in-hand is the unexecuted portion of work that has been contractually awarded to the Corporation. It includes contracts that have been awarded but not yet commenced construction, as well as an estimate of the revenue to be generated from maintenance contracts during the shorter of (a) the next two years, or (b) the remaining life of the contract.

Critical Accounting Estimates

Churchill's financial statements include estimates and assumptions made by management relating to the results of operations, financial conditions, contingencies and commitments, and related disclosures. Actual results may vary from these estimates. The following are, in the opinion of management, Churchill's most critical accounting estimates, being those that involve the most difficult, subjective and complex judgments, requiring estimates that are inherently uncertain and may change in subsequent periods.

Revenue recognition from cost-plus contracts and fixed-price contracts requires monthly estimates of costs incurred, costs to complete, and the timing of realization. On cost-plus contracts, estimates of costs incurred may be required in advance of being billed for those costs. On fixed-price contracts, revenues are recorded on a percentage-of-completion basis, which requires estimating certain costs incurred as well as the costs required to complete the contract. In making such estimates, judgments are required to evaluate contingencies such as variances in scheduling, material costs, labour costs, labour productivity, subcontractor costs, change orders and liability claims. Revenue recognition estimates may be required in each of our operating business segments, but would normally be most prevalent in Stuart Olson and Triton where a significant portion of their contract revenue and contract income for the period may be estimated. Changes in estimated costs to complete on fixed-price contracts may have a material impact on the realization of net earnings.

Goodwill impairment incorporates, at a minimum, an annual assessment of the value of Churchill's goodwill by applying a fair value based test to each segment of goodwill. Each fair value test may incorporate estimates such as normalized earnings, future earnings, price earnings multiples, future cash flows, discount rates, and terminal values. The goodwill arose on the purchase of Laird Electric in February, 2003. A significant portion of the valuation of goodwill for Laird is related to future earnings which are estimated and uncertain. Any reduction in these estimates could result in an impairment of goodwill.

Income tax provisions, including current and future income tax assets and liabilities, may require estimates and interpretations of federal and provincial tax rules and regulations, and judgments as to their interpretation and application to Churchill's specific situation. Income tax provisions are estimated each quarter, updated each year-end to reflect actual differences and the impact of revenue recognition estimates, and then finalized during the preparation of the tax returns. Any changes between the quarterly estimates and the year-end provision, and the final filing position, may impact the income tax expense category, as well as the current and future income tax asset and liability categories.

Accounts receivable collectability may require an assessment and estimation of the creditworthiness of the client, the interpretation of specific contract terms, the strength of Churchill's security, and the timing of collection. An allowance would be provided against any amount estimated to be uncollectible, and reflected as a bad debt expense.

Management's and Auditors' Report

The accompanying financial statements and all information in this Annual Report are the responsibility of management. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include certain estimates that reflect management's best judgment. Financial information contained throughout this Annual Report is consistent with the financial statements.

Management maintains appropriate systems of internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

Deloitte & Touche LLP, an independent firm of Chartered Accountants, was appointed by a vote of shareholders at the Corporation's last annual meeting to examine and report on the consolidated financial statements of the Corporation in accordance with generally accepted auditing standards.

The Board of Directors has approved the information contained in the consolidated financial statements. The Board fulfills its responsibility in this regard mainly through its Audit Committee which has thoroughly reviewed the financial statements, including the notes thereto, with management and the external auditors.

D Mack

H. R. (Hank) Reid, MBA, P.Eng.
Interim Chief Executive Officer

DeEtte Mack, B.Comm., CA
Corporate Controller

To the Shareholders of The Churchill Corporation

We have audited the consolidated balance sheets of The Churchill Corporation as at December 31, 2004 and December 31, 2003 and the consolidated statements of loss, retained earnings and net cash flow for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and 2003 and the results of its operations and its cash flow for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
February 28, 2005 (Except for Note 25(b) which is as of March 18, 2005)

Consolidated Balance Sheets

as at December 31,

($ thousands)	2004	2003
Assets		
Current Assets		
Cash and equivalents (Note 5)	**$ 11,719**	$ 14,622
Term deposit (Note 6)	**4,000**	-
Accounts receivable (Note 7)	**77,325**	67,513
Inventories and prepaid expenses	**1,663**	1,410
Properties for sale (Note 8)	**103**	103
Income taxes recoverable	**954**	-
Future income tax assets (Note 15)	**1,921**	-
Current portion of agreement receivable (Note 9)	**-**	138
	97,685	83,786
Future income tax assets (Note 15)	**549**	376
Property and equipment (Note 10)	**15,528**	9,568
Intangible assets (Note 11)	**231**	784
Refundable deposit (Note 3)	**1,000**	1,000
Goodwill (Notes 3 and 12)	**7,315**	7,315
	$ 122,308	$ 102,829
Liabilities		
Current Liabilities		
Accounts payable	**$ 67,363**	$ 50,949
Contract advances and unearned income	**17,937**	11,454
Income taxes payable	**-**	1,105
Future income tax liabilities (Note 15)	**-**	858
Current portion of long-term debt (Note 14)	**9,358**	1,864
	94,658	66,230
Long-term debt (Note 14)	**1,849**	5,635
Future income tax liabilities (Note 15)	**935**	483
	97,442	72,348
Contingencies, Commitments and Guarantees (Notes 18, 19 and 20)		
Shareholders' Equity		
Share capital (Note 16)	**4,289**	3,794
Contributed surplus (Note 16)	**5,378**	5,128
Retained earnings	**15,199**	21,559
	24,866	30,481
	$ 122,308	$ 102,829

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board:

H.R. (Hank) Reid
Director

Peter F. Adams
Director

Consolidated Statements of Loss

for the years ended December 31,

($ thousands, except per share amounts)		2004		2003
Construction Operations				
Contract revenue	$	**334,618**	$	319,398
Contract costs		**316,620**		298,094
Contract income		**17,998**		21,304
Interest income		**469**		472
Sundry income		**468**		350
Indirect and administrative expenses		**(24,820)**		(22,937)
Depreciation and amortization		**(3,193)**		(3,226)
Interest expense		**(523)**		(557)
Loss before income taxes		**(9,601)**		(4,594)
Income Tax Recovery (Expense):				
Current income tax		**932**		(4,031)
Future income tax		**2,500**		4,968
		3,432		937
Net loss	$	**(6,169)**	$	(3,657)
Net loss per common share (Note 17)				
Basic and fully diluted	$	**(0.51)**	$	(0.31)

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Retained Earnings

for the years ended December 31,

($ thousands)		2004		2003
Retained earnings, beginning of year, as previously reported	$	**21,559**	$	25,253
Change in accounting policy, stock-based compensation (Notes 1 and 16)		**(176)**		-
Retained earnings, beginning of year, restated		**21,383**		25,253
Net loss		**(6,169)**		(3,657)
Share redemption in excess of stated capital		**(15)**		(37)
Retained earnings, end of year	$	**15,199**	$	21,559

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of Net Cash Flow

for the years ended December 31,

($ thousands)	2004	2003
Operating Activities		
Net loss	**$ (6,169)**	$ (3,657)
Non-cash items		
Net equity earnings of affiliate	**-**	(172)
Depreciation and amortization	**3,193**	3,226
Gain on disposal of property and equipment	**(51)**	(136)
Future income taxes	**(2,500)**	(4,968)
Stock-based compensation (Note 16)	**74**	-
	(5,453)	(5,707)
Net change in accounts receivable, inventories and prepaid expenses	**(10,065)**	9,397
Net change in accounts payable, contract advances and unearned income	**22,897**	(492)
Change in income taxes payable	**(2,059)**	3,589
	5,320	6,787
Investing Activities		
Proceeds from agreement receivable	**138**	124
Distributions from equity investee	**-**	1,588
Purchase of term deposit (Note 6)	**(4,000)**	-
Proceeds on disposal of property and equipment	**155**	260
Acquisition of subsidiary (Note 3)	**-**	(12,874)
Additions to property and equipment	**(8,704)**	(2,411)
	(12,411)	(13,313)
Financing Activities		
Issuance of long-term debt	**5,882**	8,678
Repayment of long-term debt	**(2,174)**	(1,857)
Issuance of common shares	**498**	277
Redemption of common shares	**(18)**	(43)
	4,188	7,055
(Decrease) increase in cash	**(2,903)**	529
Net cash, beginning of year	**14,622**	14,093
Net cash, end of year	**$ 11,719**	$ 14,622

SUPPLEMENTAL CASH FLOW INFORMATION

	2004	2003
Cash paid during the year for:		
Interest expense	**$ 508**	$ 565
Income taxes	**$ 1,127**	$ 343

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. SIGNIFICANT ACCOUNTING POLICIES

The Churchill Corporation ("the Corporation") provides building construction, heavy-industrial general contracting, industrial insulation contracting, industrial electrical and instrumentation contracting and related services within Canada.

The consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles, and reflect the following policies:

Principles of Consolidation

The consolidated financial statements include the accounts of the following subsidiaries, their subsidiaries and limited partnership:

Stuart Olson Construction Ltd. (100%)
Insulation Holdings Inc. (100%)
Triton Construction Inc. (100%)
Triton Projects Limited Partnership (100%)
Laird Electric Inc. (100%)
Churchill Industrial Group Ltd. (100%)

Joint ventures are accounted for on the proportionate consolidation basis, which results in the Corporation recognizing its pro rata share of the assets, liabilities, revenues, and expenses of each of the entities.

Use of Estimates

Financial statements prepared in accordance with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from these estimates. A certain amount of uncertainty is inherent in estimating the cost of completing construction projects, the estimated useful life of equipment and corresponding depreciation rates, allowances for doubtful accounts receivable, future income taxes, provision for legal contingencies, valuation of stock options and the fair value of goodwill, intangible assets and other financial instruments. The impact on the financial statements of future changes in such estimates could be material.

Inventories

Inventories are recorded at the lower of cost and net realizable value.

Properties for Sale

Properties for sale are recorded at the lower of cost and net realizable value. Property sales are recorded when the Corporation has fulfilled all material conditions and received an appropriate down payment.

Property and Equipment

Property and equipment are recorded at cost and depreciated using either the diminishing-balance or the straight-line methods over their estimated useful lives at the rates indicated in Note 10.

Employee Future Benefits

The Corporation and its subsidiaries have a Registered Retirement Savings Plan and an Employee Share Purchase Plan. The Corporation contributes to the plans based on the amount of employee contributions. The Corporation accounts for contributions as an expense in the period that they are made (Note 23). The Corporation does not provide post employment or post retirement benefits.

Contract Income

Contract revenue for cost-plus contracts is recorded as the service is performed and the related expenses are incurred. Contract revenue from fixed-price contracts is recognized on the percentage of completion basis. Percentage of completion is determined by relating either the actual cost of work or the actual hours performed to date to the current estimated total cost or estimated total hours for each contract. Any projected loss is recognized immediately.

Income Taxes

The Corporation uses the asset and liability method of accounting for future income taxes. Under this method, future income tax assets and future income tax liabilities are recorded based on temporary differences between the carrying amount of balance sheet items and their corresponding tax bases. In addition, the future benefits of income tax assets including unused tax losses are recognized, subject to a valuation allowance, to the extent it is more likely than not such future benefits will ultimately be realized. Future income tax assets and liabilities are measured using enacted tax rates and laws expected to apply when the tax liabilities or assets are to be either settled or realized.

Earnings Per Share

Fully diluted earnings per share is computed using the treasury stock method, whereby it is assumed that any proceeds obtained upon the exercise of outstanding options would be used to buy back Common Shares at the average market price during the period.

Stock-Based Compensation Plan

Effective January 1, 2004, the Corporation adopted the fair value based method of accounting for stock options which were granted to employees on or after January 1, 2002, in accordance with the new recommendations of CICA Handbook Section 3870 *Stock-Based Compensation and Other Stock-based Payments*. As permitted, the change was adopted retroactively without restatement. Under this method, the estimated fair value of the stock options granted is recognized over the applicable vesting period as a charge to stock compensation expense and a credit to contributed surplus. When these options are exercised, the proceeds received and the related amounts of contributed surplus are credited to share capital. For options granted prior to January 1, 2002, the Corporation continues to follow the applicable generally accepted accounting principle under which no expense is recognized; when these options are exercised, the proceeds are a credit to share capital. The impact on the financial statements arising from adoption of the fair value method is disclosed in Note 16.

The Corporation has one stock option plan as described in Note 16.

Statements of Cash Flow

The statements of cash flow have been prepared using the indirect method.

Cash

For the purposes of presentation, on the Consolidated Statements of Cash Flow, cash is comprised of bank balances.

Intangible Assets and Goodwill

The Corporation records intangible assets with indefinite lives and goodwill at cost. The Corporation tests its goodwill and intangible assets with infinite lives for impairment on an annual basis, or more frequently if events and changes in circumstances indicate that the asset might be impaired. Consistent with current industry-specific valuation methods and recommendations for assessment, the Corporation uses a combination of the discounted cash flow model and the market comparable approach for determining the fair value of its reporting units. The Corporation has selected December as its annual test time.

Asset Impairment

Effective January 1, 2004, the Corporation adopted the new recommendations of CICA Handbook Section 3063 Impairment of Long-Lived Assets. Section 3063 requires that the impairment of long-lived assets held for use be established through a two-step process, with the first step determining when an impairment is recognized, and the second step measuring the amount of the impairment. An impairment loss is recognized when the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition and is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value. There is no material impact on the financial statements resulting from the adoption of Section 3063 either in the current or prior periods presented.

Guarantees

The Corporation discloses the nature, amount and term of obligations under guarantee and has provided additional disclosure in Note 20.

2. CONTINUING OPERATIONS

The consolidated financial statements of the Corporation have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Corporation will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

As a result of the financial losses over the last two years, particularly in 2004, the acquisition of capital assets related to pursuing growth in the industrial business and the reclassification of bank debt to current liabilities due to the Corporation's results being offside with the terms of its bank debt covenants, working capital has been significantly reduced. The Corporation is currently working with its existing lenders and other potential sources of financing to manage their bank debt covenant position and replenish working capital to fund its current work program as well as future growth opportunities.

To the extent that the timing of additional sources of financing does not match with the Corporation's expectations, other strategic options will be considered to manage the size and scale of activity in different operating areas to continue operations.

These consolidated financial statements do not reflect adjustments that would be necessary to the carrying values of assets, liabilities and operations if the going concern assumption were not appropriate because management believes that the actions already taken or planned will result in sufficient financing to continue operations. However, management cannot guarantee that all financing arrangements will be in place and available within the timeframes required by current operating plans.

3. ACQUISITION OF SUBSIDIARY

($ thousands)

On February 7, 2003, the Corporation acquired all of the issued and outstanding shares of Laird Electric Inc. (Laird) for $8,520 cash plus the issuance from treasury of 826,412 Common Shares of the Corporation. The financial statements to December 31, 2003 include the operations of Laird from February 8, 2003 onward.

The values assigned to the acquired net assets are:

Cash	$	1,005
Other working capital items		5,192
Property and equipment		971
Intangible assets		1,550
Goodwill		7,315
Long-term debt		(316)
Shareholders' loans		(5,359)
Future income tax liabilities		(615)
	$	9,743

The purchase price consisted of:

Common shares	$	2,223
Cash		8,520
Refundable Deposit		(1,000)
	$	9,743

The acquisition cost is shown in the Statements of Net Cash Flow as the cash paid for the shares of $8,520 less the cash acquired of $1,005, plus cash paid for the Laird shareholders' loans of $5,359, for a net cash outlay of $12,874.

Intangible assets were acquired totaling $1,550 (Note 11). The intangibles relate to a customer contract ($550), valued on a discounted net present value basis, and employment contracts valued at their recoverable value ($1,000).

The purchase price includes a refundable amount of up to $1,000 that is recoverable in the event that Laird does not achieve a cumulative financial performance objective by December 31, 2005. Any potential refund is secured

by 413,205 shares of the Corporation held in escrow without further recourse. As the consideration is contingent on achieving specific earnings levels in the future, the $1,000 has been recorded as a refundable deposit. The amount of the deposit that is not refunded, if any, will be treated as additional consideration for goodwill once the contingency is resolved. In the prior year, the contingent amount had been incorrectly recorded in goodwill as part of the purchase consideration. In 2004, the 2003 comparatives have been adjusted to decrease goodwill by $1,000 with a corresponding increase in refundable deposit.

The deposit is also refundable if certain employees of Laird resign or are terminated with cause prior to December 31, 2005. To date, no such departure has occurred or is expected to occur.

4. JOINT VENTURES

($ thousands)

The Corporation and its subsidiaries are partners in incorporated and unincorporated joint ventures. These financial statements include the proportionate share of assets, liabilities, revenue, expenses, net income and cash flow of these joint ventures as follows:

	2004	2003
Current and total assets	$ 221	$ 973
Current and total liabilities	440	1,330
Contract revenue	49	3,247
Contract costs and expenses	133	4,530
Net loss	(83)	(1,282)
Cash flow provided by (used in) operating activities	146	(2,508)

5. CASH

($ thousands)

Cash includes $10,477 (2003 — $4,370) which is restricted under the British Columbia Lien Act to the payment of direct costs related to specific construction projects. Cash balances of $13 (2003 — $146) are in joint venture accounts.

6. TERM DEPOSIT

($ thousands)

The term deposit bears interest at 2.3%, matures in December 2005, and is held as security by the bank against outstanding credit facilities (Note 14).

7. ACCOUNTS RECEIVABLE

($ thousands)

Accounts receivable are comprised of:

	2004	2003
Trades receivable	$ 60,101	$ 52,518
Holdback	14,568	11,766
Other	2,656	3,229
	$ 77,325	$ 67,513

8. PROPERTIES FOR SALE

($ thousands)

	2004	2003
Undeveloped land	$ 647	$ 647
Less cumulative valuation adjustments	(544)	(544)
	$ 103	$ 103

9. AGREEMENTS RECEIVABLE
($ thousands)

	2004	2003
Mortgage receivable, interest at 7%	$ —	$ 138
Less current portion	—	(138)
	$ —	$ —

10. PROPERTY AND EQUIPMENT
($ thousands)

	2004			2003	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value	Depreciation Rates
Land	$ 3,343	$ —	$ 3,343	$ 1,562	—
Assets under construction	—	—	—	27	—
Buildings and improvements	10,411	3,054	7,357	2,782	4%-30%
Vehicles and equipment	19,013	14,185	4,828	5,197	6%-100%
	$ 32,767	$ 17,239	$ 15,528	$ 9,568	

Depreciation for the year amounted to $2,640 (2003 — $2,460).

11. INTANGIBLE ASSETS
($ thousands)

	2004			2003	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value	Amortization Term
Customer contract intangible	$ 550	$ 550	$ —	$ 88	12 months
Employment contracts intangible	1,000	769	231	696	36 months
	$ 1,550	$ 1,319	$ 231	$ 784	

The intangible assets arose on the acquisition of Laird Electric Inc. (Note 3) and are being amortized over the term of the related contracts on a straight-line basis.

During the year, $99 of employment contracts intangible was written off by way of additional amortization when employment of an employee for whom the employment contracts intangible was originally recorded was terminated by mutual agreement.

The amortization expense for the year totaled $553 (2003 — $766).

12. GOODWILL
($ thousands)

	2004	2003
Goodwill	$ 7,315	$ 7,315

The goodwill arose on the acquisition of Laird Electric Inc. (Note 3).

13. LINES OF CREDIT
($ thousands)

The Corporation maintains an operating line of credit of $6,000 which, when utilized, bears interest at prime plus 0.5%. The total amounts ultimately available under these facilities are subject to limits based on certain financial ratios. In addition, availability of the operating line is subject to default provisions of the Corporation's credit facilities' debt covenants (Note 14).

At December 31, 2004, the total available operating line of credit was reduced by $40 which was utilized in the form of an irrevocable letter of credit as general security under an industrial maintenance contract. The letter of credit expires August 2005 and is renewed annually.

14. LONG-TERM DEBT
($ thousands)

		2004		2003
Term loan	$	**3,800**	$	—
Mortgage payable		**1,292**		—
Acquisition loan		**5,200**		6,800
Finance contracts and capital leases		**915**		699
		11,207		7,499
Less current portion		**(9,358)**		(1,864)
	$	**1,849**	$	5,635

The Corporation entered into a $4,000, five year term loan with its existing lender, secured by the existing General Security Agreements as well as a mortgage on the new modular fabrication facility with a net book value of $7,213. Interest on this loan is currently at prime plus 1.25%, but can be converted to a fixed interest rate at any time up to May 31, 2005. Principal repayments of $200 are due quarterly with the last payment due on August 2009.

Churchill placed a $1,300, five year mortgage on one of its properties. The mortgage matures on October 2009. The mortgage bears interest at 6.45%, is repayable in blended monthly payments of $10, and is secured by land and buildings with a net book value of $1,763 and a site specific General Security Agreement.

The acquisition loan bears interest at prime plus 1.25%, is payable in quarterly installments of $400 plus interest, is due February 2008, and is secured by General Security Agreements.

Finance contracts and capital leases bear effective interest rates ranging from 2.9% to 8.4%, are payable in various monthly installments, mature at various dates up to 2009, and are secured by vehicles and equipment with a net book value of $984 (2003 — $760).

Interest expense on long-term debt during the year was $413 (2003 — $411).

The term loan and acquisition loan as discussed above, as well as the line of credit, as discussed in Note 13, are subject to certain debt covenants calculated on a quarterly basis including but not limited to tests of tangible net worth, leverage and interest coverage. At December 31, 2004, the Corporation was not in compliance with certain of its debt covenants; therefore, the bank is in a position to demand repayment of these facilities. As a result, the Corporation has classified $6,600 of long-term debt that is not scheduled to be repaid until 2006 and onward, as a current liability. The Corporation has provided $4,000 term deposit (Note 6) as additional security for these credit facilities.

Estimated principal payments in the next five years are:

		Scheduled Repayment		Reclassification of Demandable Loans		Total
2005	$	2,758	$	6,600	$	9,358
2006		2,766		(2,400)		366
2007		2,642		(2,400)		242
2008		1,332		(1,200)		132
2009		606		(600)		6
thereafter		1,103		—		1,103

15. INCOME TAXES
($ thousands)

The Corporation's tax (recovery) expense differs from the provision computed at statutory rates as follows:

		2004		2003
Net loss before income taxes	$	**(9,601)**	$	(4,594)
Equity earnings		**—**		(172)
Non-deductible expense		**653**		475
Taxable Income	$	**(8,948)**	$	(4,291)
Income tax at statutory rate of 33.87% (2003 — 36.75%) of taxable income	$	**(3,031)**	$	(1,577)
Large corporation and other taxes		**10**		224
Effect of change in tax rates for future income tax and tax recovery		**(192)**		(65)
Unrecorded tax loss asset of joint venture		**(267)**		267
Other		**48**		214
Income Tax Recovery	$	**(3,432)**	$	(937)

The components of the future income tax assets and liabilities are as follows:

		2004		2003
Tax loss carryforwards	$	523	$	1,703
Equipment and other assets		(537)		12
Unbilled work-in-progress and holdback receivable		1,387		(2,692)
Other		162		12
	$	1,535	$	(965)
Classified as:				
Long-term asset	$	549	$	376
Current asset (liability)		1,921		(858)
Long-term liability		(935)		(483)
	$	1,535	$	(965)

The consolidated group has accumulated net capital losses for income tax purposes of $7,172 which may be carried forward indefinitely to reduce future capital gains. The value of these losses has not been recognized in these financial statements.

The consolidated group has accumulated non-capital losses for income tax purposes of $1,777 which expire as follows.

2005	$	5
2006		5
2007		5
2008		154
2009		10
2010		154
2011		1,444

16. SHAREHOLDERS' EQUITY

($ thousands, except share and per share amounts)

Share Capital

Authorized

Unlimited Preferred Shares issuable in series with rights set by the Directors

Unlimited Common Shares

Issued	2004			2003		
	Shares	**Share Capital**		Shares	Share Capital	
Common Shares:						
Issued, beginning of year	**11,863,652**	**$**	**3,794**	10,864,040	$	1,300
Shares repurchased and cancelled	**(7,300)**		**(3)**	(18,800)		(6)
Stock options exercised	**382,000**		**498**	192,000		277
Issued pursuant to acquisition (Note 3)	**—**		**—**	826,412		2,223
Issued, end of year	**12,238,352**	**$**	**4,289**	11,863,652	$	3,794

Contributed Surplus

Contributed surplus of $5,128 arose in 1997 from the acquisition of Preferred Shares, with an issue price of $9,829, for $4,142 plus associated acquisition costs of $559. A restatement of $176 was made to opening contributed surplus for cumulative compensation cost of options to acquire Common Shares of the Corporation issued since January 1, 2002. An additional $74 resulted from the recognition of compensation costs for 2004.

Share-Based Compensation Plan

The Corporation maintains an Employees and Directors Share Option Plan under which options may be granted by the Board of Directors for up to 2,135,666 Common Shares of the Corporation. As at December 31, 2004, the maximum number of options available for issue under this plan is 1,026,000 of which 564,334 are issued and outstanding, leaving 461,666 available for grant. The exercise price of each option cannot be lower than the public market price on the date of grant. The Board of Directors sets the exercise period for each option granted, which may not exceed ten years, and the vesting term, which may not exceed five years.

A summary of the Corporation's outstanding share options under the Plan at December 31, 2004, indicating changes during the years ended on those dates is presented below:

	2004			2003		
	Number of Share Options	**Weighted Average Exercise Price**		Number of Share Options	Weighted Average Exercise Price	
Outstanding, beginning of year	**1,046,334**	**$**	**2.03**	1,077,667	$	1.73
Granted	**—**		**—**	205,000		2.95
Cancelled	**(100,000)**		**2.95**	(44,333)		1.63
Exercised	**(382,000)**		**1.30**	(192,000)		1.44
Outstanding, end of year	**564,334**	**$**	**2.35**	1,046,334	$	2.03

The following table summarizes information about share options outstanding under the Plan at December 31, 2004:

	Exercise Price	Expiry Date	Options Outstanding Dec. 31, 2004	Options Exercisable Dec. 31, 2004
$	1.30	Feb. 7, 2005	33,334	33,334
	1.64	Nov. 13, 2005	301,000	301,000
	3.84	Aug. 9, 2007	125,000	91,666
	2.95	Oct. 7, 2007	105,000	70,000
			564,334	496,000

Due to a change in accounting policy effective January 1, 2004 (Note 1), the Corporation recorded an adjustment to contributed surplus and retained earning of $176 relating to share-based compensation expense for options granted subsequent to January 1, 2002.

The fair value of each option granted by the Corporation was estimated using the Black-Scholes option-pricing model assuming no dividends are paid on Common Shares, a risk-free interest rate of 3.36% (2003 — 3.36%), an average life of 3.4 years (2003 — 3.4 years), and a volatility of 49.69% (2003 — 49.69%). The amounts computed, according to the Black-Scholes pricing model, may not be indicative of the actual values realized upon the exercise of these options by the holders.

Normal Course Issuer Bids

During the year the Corporation purchased 7,300 (2003 — 18,800) Common Shares for cancellation under a Normal Course Issuer Bid at an average cost of $2.44 (2003 — $2.29) per share, including commissions. The amount by which the cost exceeds the stated value of the Common Shares is charged to retained earnings.

The Corporation participated in a Normal Course Issuer Bid through the Toronto Stock Exchange under which up to 900,000 of its outstanding Common Shares may be purchased for cancellation. This bid terminates on February 23, 2005 and has not been renewed.

Shareholder Rights Plan

The Corporation has an Amended and Restated Shareholder Rights Plan (the "Plan") which attaches one Right, with an Exercise Price of $20.00, to each outstanding Common Share of the Corporation. The Rights expire on September 30, 2007 unless exchanged or redeemed on an earlier date. Such Rights can only be exercised on the occurrence of a triggering event, which is defined as a person (an "Acquiring Person") acquiring, or publicly announcing its intention to acquire, 20% or more of the Common Shares, other than by an acquisition pursuant to a takeover bid permitted by the Plan. Upon occurrence of a triggering event, as described above, each Right entitles the holder, other than an Acquiring Person, to purchase that number of Common Shares of the Corporation having an aggregate market price equal to twice the Exercise Price, for a cash amount equal to the Exercise Price.

17. NET LOSS PER COMMON SHARE

($ thousands, except share and per share amounts)

Basic loss per share is computed on the basis of the weighted average number of Common Shares outstanding. Fully diluted earnings per share is computed on the basis of the weighted average number of Common Shares outstanding plus the effect of outstanding stock options using the treasury stock method. For the years ended December 31, 2004 and December 31, 2003 the effect of outstanding share options on earnings per share is anti-dilutive as the Corporation is in a loss position. As such, the effect of outstanding stock options used to calculate the fully diluted net earnings per share has not been disclosed.

The components of basic and fully diluted earnings per share are as follows:

	2004	2003
Net loss	**$ (6,169)**	$ (3,657)
Weighted average number of common shares outstanding	**12,099,776**	11,665,985
Net loss per common share:		
Basic and fully diluted	**$ (0.51)**	$ (0.31)

Effective January 1, 2002, the CICA recommended that stock-based compensation be accounted for using a fair value methodology. As permitted, the Corporation has elected to measure compensation expense as the difference, if any, between the quoted market value or fair value of the stock at the date of grant and the exercise price at the date of grant. The exercise price of options granted by the Corporation was not less than the market value at the date of grant and, consequently, no compensation expense has been recorded.

As discussed in Note 1, if compensation costs for options for Common Shares of the Corporation, issued on or after January 1, 2002, had been determined based on the fair value methodology, using the Black-Scholes option pricing model and the assumptions as described in Note 16, the Corporation's net loss and loss per share would have been increased in 2003 to the Pro forma amounts indicated below:

			2003
Net loss	As reported	$	(3,657)
	Pro forma		(3,773)
Basic and fully diluted loss per common share	As reported	$	(0.31)
	Pro forma		(0.32)

18. CONTINGENCIES

($ thousands)

a) Subsidiaries of the Corporation are contingently liable for normal contractor obligations relating to performance and completion of construction contracts as well as obligations of associates in certain joint ventures.

b) The Corporation and its subsidiaries are defendants in lawsuits arising in the normal course of operations and involving various amounts. Management is of the opinion the results of these actions should not have any material effect on the financial position of the Corporation. Any awards or settlements will be reflected in the Statement of Earnings as the matters are resolved.

19. COMMITMENTS

($ thousands)

The Corporation and its subsidiaries lease certain equipment, vehicles, office premises, and are also committed to future annual payments in respect of a service agreement. Future minimum lease payments over the next five years are:

2005	$	731
2006		404
2007		301
2008		219
2009		195

20. GUARANTEES

($ thousands)

The Corporation has issued an irrevocable letter of credit for $40 as general security under an industrial maintenance contract. The maximum potential payment amount varies with the scope of the maintenance being performed at any given point in time, and may be greater or less than the letter of credit. The letter of credit expires August 2005 and is renewed annually.

The Corporation is a partner in two joint ventures. In each instance the Corporation has provided a joint and several guarantee, increasing the maximum potential payment to the full value of the work remaining under the contract. The cost of completing the contracts cannot reasonably be determined, and may be greater or less than the unbilled portion of the contracts.

The Corporation has entered into a joint and several guarantee under the representations and warranties given as a part of the transactions whereby the Corporation's equity investment sold the majority of its assets to a third party. The Corporation also agreed to have $189 of its proceeds placed into an escrow account until February 2008 to provide against product warranty claims and claims under the representations and warranties. There is no maximum potential payment under the guarantee. The Corporation has not recorded the escrow amounts as an asset as at December 31, 2004.

21. RELATED PARTY TRANSACTIONS

($ thousands)

In October 2002 the Corporation provided an interest-bearing, demand loan to a senior officer of the Corporation to assist with the purchase of housing in Edmonton. The senior officer maintains offices in both Calgary and

Edmonton. At December 31, 2004 the loan balance was $30 (2003 — $30). In addition, market rent payments of $24 (2003 — $24) were made by the Corporation in relation to this housing.

The Corporation incurred legal fees of $194 (2003 — $333) for services related to various legal matters with a law firm for which a director of the Corporation is also a partner of the firm.

22. SEGMENTED INFORMATION

($ thousands)

The Corporation operates as a construction and maintenance services provider, primarily in western Canada. The Corporation is managed using five business segments: Buildings, Industrial General Contracting, Industrial Insulation Contracting, Industrial Electrical Contracting, and Corporate and Other.

Buildings is active in the construction of commercial, institutional, light-industrial and multi-unit residential buildings.

Industrial General Contracting includes heavy-industrial general contracting, fabrication, site work and ongoing maintenance.

Industrial Insulation Contracting includes all insulation, siding, fireproofing, asbestos abatement and plant maintenance services including, in certain instances, services provided to our industrial general contracting and industrial electrical contracting companies.

Industrial Electrical Contracting includes industrial electrical, instrumentation and power-line construction and maintenance services including, in certain instances, services provided to our industrial general contracting companies.

Corporate and Other includes the Corporation's non-core investments as well as all corporate costs not allocated directly to another business segment.

The accounting policies of the reportable segments are the same as those described in Note 1. The segmented information provided is after the elimination of inter-segment management fees and loan balances and any related interest charges.

($ thousands)

Year Ended December 31, 2004	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill	Total Assets	Capital Expenditures
Buildings	$ 239,156	$ 2,183	$ 668	$ —	$ 69,353	$ 412
Industrial General Contracting	40,423	(8,267)	858	—	9,607	875
Industrial Insulation Contracting	41,112	1,706	456	—	6,336	262
Industrial Electrical Contracting	19,726	(1,981)	921	7,315	12,262	340
Corporate and Other	—	(3,136)	290	—	24,750	6,815
Inter-segment Adjustments	(5,799)	(106)	—	—	—	—
	$ 334,618	$ (9,601)	$ 3,193	$ 7,315	$ 122,308	$ 8,704

Year Ended December 31, 2003	Contract Revenue	Earnings (Loss) Before Tax	Depreciation & Amortization	Goodwill	Total Assets	Capital Expenditures
Buildings	$ 192,875	$ (2,550)	$ 596	$ —	$ 55,129	$ 657
Industrial General Contracting	38,660	(2,898)	885	—	10,570	525
Industrial Insulation Contracting	63,940	2,530	475	—	10,498	333
Industrial Electrical Contracting	25,519	1,173	1,070	7,315	11,346	370
Corporate and Other	—	(3,031)	200	—	15,286	526
Inter-segment Adjustments	(1,596)	182	—	—	—	—
	$ 319,398	$ (4,594)	$ 3,226	$ 7,315	$ 102,829	$ 2,411

23. EMPLOYEE CONTRIBUTION PLANS

($ thousands)

The Corporation and its subsidiaries have a Registered Retirement Savings Plan and an Employee Share Purchase Plan whereby they match voluntary contributions made by employees to a maximum of 5% of base salary for each plan. Contributions made by the Corporation during the year to the plans were $1,557 (2003 — $1,429).

24. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of receivables and other like amounts that will result in future cash receipts, as well as accounts payable, short-term borrowings, and any other amounts that will result in future cash outlays.

Risk management

The financial risk is the risk to the Corporation's earnings that arises from fluctuations in the interest rates and foreign exchange rates and the degree of volatility of these rates. The Corporation is exposed to interest rate risk on its floating rate operating line, when utilized, and its floating rate term debt as disclosed in Notes 13 and 14. The Corporation does not use derivative instruments to reduce its exposure to this risk. The Corporation is not currently exposed to any direct foreign currency risk.

Credit risk

The Corporation is exposed to credit risk through accounts receivable. This risk is minimized by the number of customers in diverse industries and geographic centers. The Corporation performs an assessment of its potential customers as part of its work procurement process, including an evaluation of financial capacity. The Corporation maintains provisions for potential credit losses, and any such losses to date have been within management's expectations.

Fair value of financial instruments

As at December 31, 2004, the carrying value of financial instruments of the Corporation approximates their fair values.

25. SUBSEQUENT EVENTS

($ thousands)

a) On February 2, 2005, the Corporation issued an irrevocable letter of credit for $500 as general security under an industrial maintenance contract. This issuance reduces the Corporation's available operating line of credit.

b) On March 18, 2005, the Corporation finalized the disposition of a property for sale with a carrying value of $102 for net cash proceeds of $328.

26. COMPARATIVE FIGURES

Certain of the comparative figures have been adjusted to be consistent with the current year's presentation.

Five Year Summary

The following selected unaudited financial data has been derived from Churchill consolidated financial statements, which have been audited by Deloitte & Touche LLP, Chartered Accountants. The information set forth below should be read in conjunction with the Management's Discussion & Analysis and Consolidated Financial Statements and Notes sections of this Annual Report.

Years ended December 31

($ thousands, except share and per share data and percentages)	**2004**	2003	2002	2001	2000
INCOME STATEMENT DATA					
Contract Revenue	**$ 334,618**	$ 319,398	$ 311,794	$ 293,462	$ 314,078
Contract Income	**17,998**	21,304	21,736	30,123	27,802
Contract Income (%)	**5.4%**	6.7%	7.0%	10.3%	8.9%
Earnings (Loss) Before Interest, Tax					
Depreciation and Amortization (EBITDA)	**(5,885)**	(811)	2,786	10,966	13,697
Interest Expense	**523**	557	248	253	150
Depreciation and Amortization Expense	**3,193**	3,226	1,992	1,708	1,502
Earnings (Loss) Before Income Taxes	**(9,601)**	(4,594)	546	9,005	12,045
Net Earnings	**(6,169)**	(3,657)	982	5,318	6,690
BALANCE SHEET DATA					
Working Capital	**$ 3,027**	$ 17,556	$ 21,175	$ 22,504	$ 18,542
Shareholders' Equity	**24,866**	30,481	31,681	30,584	25,342
Total Debt	**11,207**	7,499	362	4,999	1,248
Non-Construction Related Assets	**103**	241	1,781	1,699	1,383
PER COMMON SHARE DATA					
Net Earnings (Loss) per Share:					
Basic	**$ (0.51)**	$ (0.31)	$ 0.09	$ 0.50	$ 0.63
Fully Diluted	**(0.51)**	(0.31)	0.09	0.47	0.60
Book Value per Share	**2.03**	2.57	2.92	2.89	2.39
OTHER DATA					
Return on Average Shareholders' Equity ("ROE")	**(22%)**	(12%)	3%	19%	30%
Work-in-Hand	**$ 251,463**	$ 313,712	$ 317,266	$ 269,101	$ 233,246
COMMON SHARE INFORMATION					
Weighted Average Shares Outstanding	**12,099,776**	11,665,985	10,773,696	10,567,745	10,704,566
Shares Outstanding at Year End:					
Basic	**12,238,352**	11,863,652	10,864,040	10,566,974	10,598,774
Fully Diluted	**12,802,686**	12,909,986	11,941,707	11,997,974	12,018,774
Shares Traded*	**2,726,344**	2,018,816	4,971,289	3,300,782	4,484,550
Share Price:					
High	**$ 3.08**	$ 3.00	$ 4.91	$ 3.49	$ 2.00
Low	**2.25**	1.90	1.79	1.86	1.25
Close	**2.45**	2.35	2.85	3.10	1.95

* Churchill Common Shares were listed on The Alberta Stock Exchange/Canadian Venture Exchange (CDNX) through January 25, 2000 and were listed for trading on the TSE December 8, 1999. The share trading volume and price information set forth consolidates CDNX and TSE market activity.

Profiles

DIRECTOR PROFILES

PETER F. ADAMS, PH.D., P.ENG.
CHAIRMAN
(EDMONTON) A B C
- Retired President and Managing Director, Canadian Petroleum Institute

BRIAN W.L. TOD, B.A., LL.B., Q.C.
DEPUTY CHAIRMAN
(EDMONTON) B
- Senior Partner, Miller Thomson LLP

H.R. (HANK) REID, MBA, P.ENG.
(GABRIOLA ISLAND) A
- See Executive Profiles

STANTON K. HOOPER, C.E.T.
(EDMONTON) C
- President, Stanton Developments Ltd.

HARRY A. KING, B.A., CA
(VANCOUVER) A
- President and Director, Harking Investments Ltd.

KIM MCINNES, B.A., M.U.D.
(TORONTO) B
- Executive Vice President and Chief Operating Officer, Ivanhoe Cambridge

WINSTON D. STOTHERT, M.A.SC., P.ENG.
(VANCOUVER) C
- Chairman, Stothert Power Corporation

A Member, Audit Committee

B Member, Human Resources and Compensation Committee

C Member, Corporate Governance,Nominating and Risk Management Committee

EXECUTIVE PROFILES

1. H.R. (HANK) REID, MBA, P.ENG.
   Interim President and Chief Executive Officer
   - President and Chief Executive Officer, The Churchill Corporation from 1990 through 2002
   - Formerly President, Western Region and Vice President Corporate Development, George Wimpey Canada; President, Carlson Construction; and Corporate Controller, Bovis Corporation

2. L. BRUCE RINTOUL, MBA, P.ENG.
   Vice President, Industrial, The Churchill Corporation
   - Joined Churchill in 2000
   - Chief Executive Officer of Triton Projects, Fuller Austin Insulation and Laird Electric
   - Responsible for the growth and profitability of Industrial Division through internal initiatives, alliances and acquisitions
   - Twenty-four years engineering, business development and general management experience in industrial construction and industrial services

3. ALLEN W. STOWKOWY, B.SC., P.ENG.
   President, Stuart Olson Construction
   - Joined Stuart Olson in 1985
   - Progressed through positions in operations and general management to become Senior Vice President in 1997, and President and Chief Operating Officer in 2002
   - Responsible for the growth and profitability of the Buildings Division through internal initiatives, alliances and acquisitions

4. DeETTE MACK, B.COMM., CA
   Corporate Controller
   - Joined Churchill in 2004
   - Responsibilities include treasury, management information systems and controls, risk management and accounting
   - Prior financial management experience with an international, public consulting engineering company

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